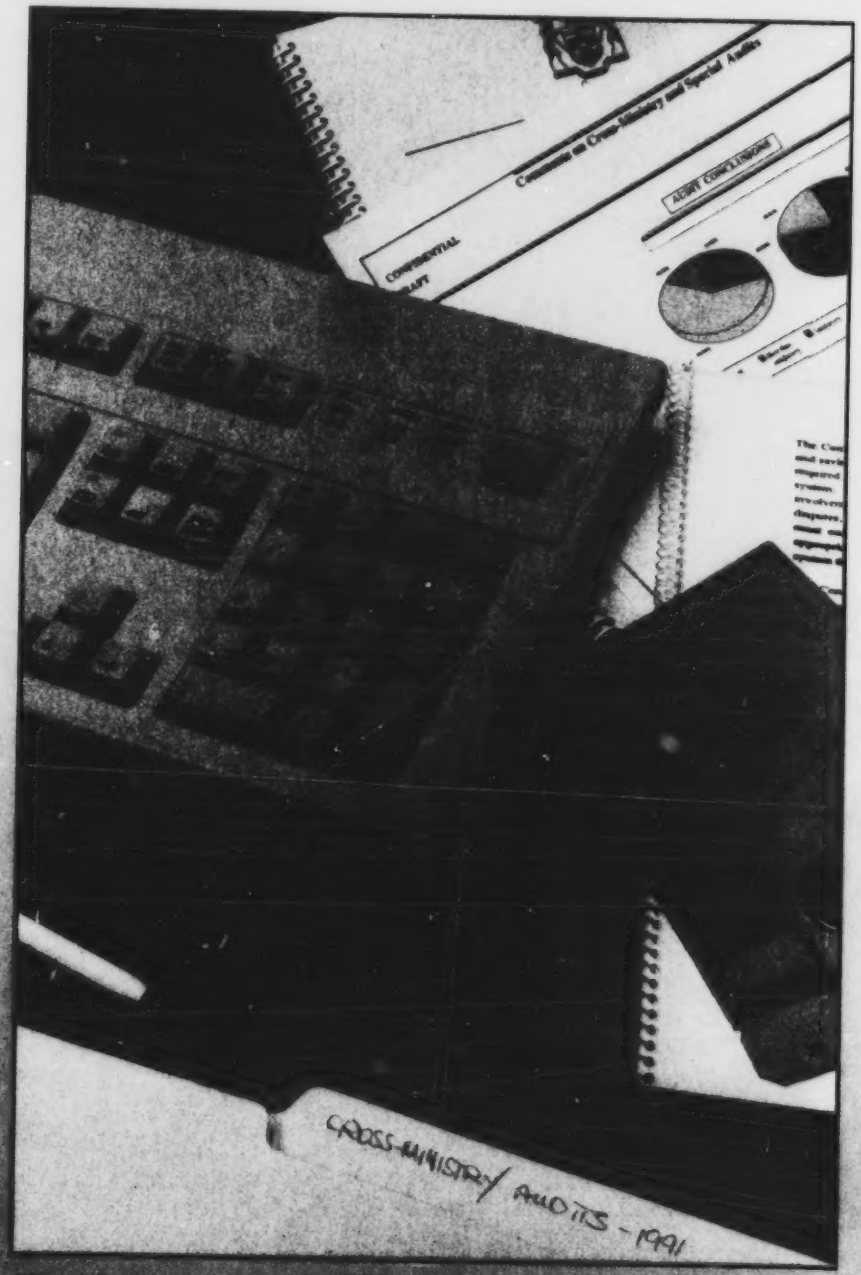
Ontario

OFFICE OF THE PROVINCIAL AUDITOR

1991 ANNUAL REPORT



Ontario

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THE HONOURABLE
DAVID WARNER, M.P.P.

Speaker of the Assembly
Province of Ontario

Dear Sir:

I am pleased to transmit my report covering audits completed through August 31, 1991, for submission to the Assembly in accordance with the provisions of section 12(1) of the Audit Act.

D.F. Archer

D.F. Archer, F.C.A.,
Provincial Auditor.

Toronto, November 26, 1991.

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CHAPTER

1

MATTERS OF SPECIAL INTEREST

CHAPTER 1
MATTERS OF SPECIAL INTEREST

1.1 Scope of Audit Activity

The Province's revenue and expenditure for the fiscal year ended March 31, 1991 totalled $43.4 billion and $46.5 billion, respectively. Over 25 ministries were involved in the administration of hundreds of revenue and expenditure programs and in the operation of associated financial and information systems.

The size and complexity of Government preclude an audit of all operations on an annual basis. Accordingly, each year, the Office audits a selection of programs and systems so that over a five-year period management's administration of all major operations is considered for review. This year, we audited 16 major programs/activities in 10 different ministries, primarily for value for money. As well, inspection audits of transfer payments to two public hospitals and six school boards were completed. Additionally, we carried out four cross-ministry audits: mainframe computers, microcomputers, minicomputers and the payments system for goods and services.

A special review for the Standing Committee on Public Accounts was also completed.

The Provincial Auditor attests to the fairness of the financial statements of the Province and over 60 Crown agencies on an annual basis.

Government policies or policy development are not subject to audit. (Section 5.3)

1.2 Overall Assessment

As explained in the succeeding section, we attempt to assess the quality of administration in each of the many government functions we audit. While these individual assessments are beneficial, we recognized they would be even more useful if they could be aggregated in some way. Accordingly, we began including in our Annual Report a summary assessment of all the functions audited during the relevant year.

This higher level information, however, still did not address the ultimate question "how well is government being administered overall?" Commencing in 1988 we began to provide an assessment at that level.

This step required considerable deliberation. Government programs and activities are audited on a cyclical basis, as outlined in section 1.1, rather than each year. Consequently, we did not have the usual audit evidence on which to base an overall assessment. Nevertheless, we were not without conviction in the matter.

Our conviction was based partly on the audit results of recent years. But it also took into account intangible factors as well, for example, our belief that long audit association has provided us with a good understanding of the nature of government and its operating environment. We also believe that professional training and years of experience enable us to recognize and appreciate good management practices.

When factors such as these were collectively considered, it was our opinion, and we so reported, that the Government of Ontario was being satisfactorily administered overall.

1.2 cont'd

We remain of the same opinion today.

We are pleased to report that, during our audits, we received all the information and explanations required. We acknowledge and thank all those from whom we received assistance.

1.3
Basis of Reporting

This Report is provided in accordance with Section 12(2) of the *Audit Act* which requires the Provincial Auditor to bring observations of significant deficiencies in Government administration to the attention of the Legislative Assembly.

To provide better support to the Assembly in its role of holding the Government accountable, we attempt to go beyond this basic requirement by assessing, where possible, how well a particular government function is being administered, and to support that assessment with specific observations and comments. This enables us to report observed matters within the context of a conclusion regarding the overall quality of administration in the audited activities.

There is a perception that in pursuing our mandate we place too little emphasis on the many areas where no significant deficiencies have been observed. That is, to some extent, an unavoidable consequence of our reporting responsibilities. However, we endeavour to report our findings in the proper context, and frequently draw attention to positive examples of government administration.

The Annual Report contains the most significant results of our examinations of selected ministries and agencies. Our choice is based not only on the significance of the dollar value involved, but also on the importance of a particular matter or issue to the Legislature. Some informational comments are also included in this Report because we believe that they should be drawn to the attention of the Assembly.

1.4
Audit Conclusions

As explained in Section 1.3, in most audits we endeavour to assess how well a particular Government function is being administered. Our assessments take the form of conclusions on specific audit objectives.

Each conclusion is based on an examination of audit results (i.e. the evidence gathered) against criteria relevant to the particular objective. Criteria are discussed with management of the function being audited, and may be defined as reasonable and attainable standards of performance and control.

The importance of professional judgement in legislative auditing must be stressed. Assessment of administrative matters is not an exact science.

We have developed five categories for our audit conclusions — Excellent, More than Satisfactory, Satisfactory, Less than Satisfactory, and Unsatisfactory. Most of our conclusions fall into one of the three middle categories.

Report Synopsis

1.4 cont'd

These categories may be viewed by some as imprecise or open to interpretation. To assist readers in this regard we have attempted to assign a numerical range to the five categories of conclusions. The following may serve as a useful guideline:

Category	Range
Excellent	85-100
More than satisfactory	70-85
Satisfactory	60-70
Less than satisfactory	45-60
Unsatisfactory	0-45

In arriving at our conclusions we do not profess to be infallible. We do, however, profess to be competent, independent and objective. Accordingly, we are fully confident in our minds that the conclusions reached are valid.

1.5
Report Synopsis

Introduction

The purpose of this section is to provide readers with an overview of the comments in Chapters Two and Three. The summaries are very brief, and readers are encouraged to refer to the complete text as indicated by the section references.

Update on Accountability for Transfer Payments

Over the next three fiscal years, ministry internal audit branches are to audit transfer payment accountability frameworks for compliance with Management Board Secretariat's Directive, and ministries are to report annually to the Secretariat on these audits.

Through our regular ministry audit activities and contacts with the Management Board Secretariat we will continue to review progress being made in enhancing transfer payment accountability.

Our Office has reviewed and reported on accountability frameworks for school boards (1990 Annual Report, Section 3.6) and hospitals (Section 3.6 of this report). (Section 2.2)

Ontario's Deficit

The purpose of this year's section is to provide an informational update on Section 2.4 of last year's Annual Report.

Arguments are presented for and against the advisability of governments accumulating deficits. Ontario's recent and projected deficit experience is outlined. (Section 2.3)

Matters of Special Interest

1.5 cont'd

Cross-Ministry Audits

We audited the administration of the government payments system and computer systems across several ministries.

Government Payments System for Goods and Services

We found that controls over payments were satisfactory, and the system was operating in accordance with policies and procedures. However, there was less than satisfactory protection of payment programs and data. (Section 2.4)

Government Microcomputers

Microcomputer hardware was satisfactorily protected from theft, but information stored on microcomputers was vulnerable to loss, misuse or destruction. The acquisition of microcomputers was satisfactorily managed. (Section 2.5)

Government Minicomputers

Security controls over data on government minicomputers were less than satisfactory. (Section 2.6)

Government Mainframe Computers

Security over data on mainframe computers was more than satisfactory at one government computer centre, but unsatisfactory at four others. (Section 2.7)

Inspection Audits

In 1991 we conducted inspection audits of two hospitals and six school boards.

Toronto General Division, The Toronto Hospital

We could not draw conclusions regarding the acquisition of goods and services due to a lack of documentation. Controls over drug and equipment inventories were satisfactory. (Section 2.8)

Toronto East General Hospital

Accounting records and procedures for non-payroll expenditures were satisfactory, but improvements were required in the documentation of acquisition decisions. (Section 2.9)

School Boards

Controls over purchases were satisfactory at most of the six boards audited, but controls over the acquisition of student transportation were less than satisfactory. Opportunities to reduce transportation costs were noted at all boards. (Section 2.10)

Report Synopsis

1.5 cont'd

Trends in Staffing Levels in Ontario School Boards

Professional staff levels in school boards have increased at almost twice the rate of enrolment growth. No conclusive evidence is as yet available to indicate whether lower pupil-teacher ratios have improved the quality of education. (Section 2.11)

Ministry Audits

Livestock and Dairy Inspection; Agriculture and Food

The livestock inspection process was less than satisfactory in assuring food quality and safety, but the dairy inspection process was satisfactory. (Section 3.2)

Surrey Place Centre; Community and Social Services

The Ministry had not adequately monitored the Centre's expenditure of funds. (Section 3.3)

Waste Management Monitoring and Funding; Environment

Efforts to monitor the generation and disposal of hazardous and liquid industrial wastes were less than satisfactory. (Section 3.4)

Deposit Institutions Division; Financial Institutions

Monitoring of credit unions to ensure compliance with legislation was satisfactory, but monitoring of mortgage brokers was less than satisfactory. (Section 3.5)

Institutional Health Program; Health

The Ministry's accountability framework for hospitals could not be implemented without changes to the *Public Hospitals Act.* The Ministry's monitoring of hospital operations was less than satisfactory. (Section 3.6)

Ontario Drug Benefit Plan; Health

Efforts in minimizing the cost of drug benefits were satisfactory, although there was scope for further savings. The post-payment inspection process was less than satisfactory. (Section 3.7)

Industrial Assistance; Industry, Trade and Technology

The process of evaluating projects for financial assistance was unsatisfactory and the monitoring of projects for compliance with the terms and conditions of their agreements was less than satisfactory. (Section 3.8)

Matters of Special Interest

1.5 cont'd

Construction Health and Safety Activities; Labour
Employment Standards Branch; Labour

The systems for measuring and reporting on program effectiveness were unsatisfactory. Resources were not utilized efficiently. (Sections 3.9 and 3.10)

Effectiveness Measures; Ontario Women's Directorate

Initiatives were delivered satisfactorily according to plan and within budget, but systems to measure and report on the effectiveness of certain initiatives were less than satisfactory. (Section 3.11)

Sports and Fitness and Recreation Grants; Tourism and Recreation

Grants were generally provided for eligible purposes in accordance with policies and procedures. However, there was inadequate information available to determine whether sports and fitness grants were used as intended. (Section 3.12)

Municipal Transit Program; Transportation

Controls over payments at the three audited municipal transit organizations were satisfactory, and the terms and conditions of subsidies provided to municipalities were complied with. (Section 3.13)

Crown Agency Audits

Monitoring of Employee Expenses; Liquor Control Board of Ontario

Numerous payments for ineligible and questionable employee expenses were made, and more improvement is needed in the management of vehicles. (Section 3.14)

Management of Government-Owned Housing; Ontario Housing Corporation

Management information and reporting systems were less than satisfactory. We found that rents geared to income were properly calculated and collected on a timely basis. The effectiveness of policies and agreements for placing tenants was questioned. (Section 3.15)

Hazardous Waste Treatment Facility and Other Matters; Ontario Waste Management Corporation

Subject to the outcome of environmental assessment hearings, the Corporation has calculated start-up dates for its proposed waste treatment and disposal facility ranging from November 1995 to April 1998. Corporation salary ranges were significantly higher than those in the Ontario Public Service. (Section 3.16)

Reacting to Concerns

1.6
Reacting to Concerns

The Office of the Provincial Auditor can be contacted by anyone who has concerns about wasteful or inappropriate use of resources in the administration of Ontario Government programs.

Information received will be treated confidentially and considered for appropriate action or investigation. Any significant findings resulting from investigations undertaken will be included in subsequent Annual Reports to the Legislature.

Contact may be made by telephone at (416) 974-9866 or 1-800-668-8516, by facsimile (416) 324-7012 or by writing to:

Office of the Provincial Auditor,
Box 105, 20 Dundas Street West,
Toronto, Ontario.
M5G 2C2

CHAPTER

2

COMMENTS ON CROSS-MINISTRY AND SPECIAL AUDITS

CHAPTER 2
COMMENTS ON CROSS-MINISTRY AND SPECIAL AUDITS

2.1 Introduction

Comments contained in this segment of the Report result principally from cross-ministry and special audits. A list of all audits completed since our last Annual Report is included in Exhibit 1.

2.2 Accountability for Transfer Payments

INTRODUCTION

As the Office's primary goal is to assist the Legislature in holding the Government and its administrators accountable for the stewardship of public funds, we have an ongoing interest in the improvements being effected in transfer payment accountability.

In the 1991 fiscal year, transfer payments of $34.1 billion accounted for over 73 per cent of Provincial expenditure. However, the Government only has direct control over the approximately one quarter of these payments that are made directly to individuals, or to others such as physicians and pharmacists providing services to the public. As the other three quarters of the funds represent transfer payments to intermediary organizations or bodies providing services to the public, the Government does not directly control their use, safeguarding or expenditure. The major payments in this latter category are operating grants to: hospitals ($6.4 billion), school boards ($4.5 billion), universities ($1.8 billion) and colleges ($.8 billion).

ACCOUNTABILITY FRAMEWORKS

In 1988 the Management Board Secretariat (the Secretariat) issued a Directive on Transfer Payment Accountability in order to establish an effective framework for transfer payment recipients to account for their management of public funds. The frameworks were to contain the key components of setting expectations (objectives and results), contracting (the understanding between the ministry and the transfer payment recipient), and reporting.

As requested by the Secretariat, all ministries submitted accountability frameworks for each transfer payment program. The Secretariat reviewed the frameworks and in October 1989 obtained Cabinet approval for the frameworks relating to 21 of the largest transfer payment programs. These programs represented approximately 80 per cent of total Provincial transfer payments.

In November 1989 the Secretariat requested ministries to have their internal audit branches, over the next three fiscal years (1991 to 1993), audit all transfer payment accountability frameworks for compliance with the Directive on Transfer Payment Accountability. Subsequently, the Secretariat issued an audit review guide for the Directive.

The Secretariat also requested ministries to report annually whether the Directive on Transfer Payment Accountability had been audited. The first annual reports were due by June 30, 1991 and were to be based on compliance audits of accountability frameworks completed during the period up to March 31, 1991. The reports will

2.2 cont'd

assist the responsible Deputy Ministers in ensuring that the Directive on Transfer Payment Accountability has been properly implemented. Additionally, the reports will assist in maintaining the currency and effectiveness of the Directive, and provide a better understanding of the overall audit coverage of the Directive.

In their reports, the ministries indicated that approximately one third of the total accountability frameworks had been audited for compliance to the end of the 1991 fiscal year. Some ministries had already completed all their framework audits. No major difficulties in meeting the intent of the Directive on Transfer Payment Accountability were reported.

The Secretariat will discuss the reports with the ministries as well as their progress in auditing the accountability frameworks within the required timeframe. The Secretariat plans to inform the Cabinet of the results of this initiative and will continue to request similar annual reports from the ministries in future years.

In addition to the Management Board initiative, our Office has reviewed and reported on accountability frameworks for school boards (1990 Annual Report, Section 3.6) and hospitals (Section 3.6 of this Report). Also, the Standing Committee on Public Accounts reviewed our 1988, 1989 and 1990 Annual Report sections relating to universities and school boards, and in February 1991 discussed these sections with representatives of the five recipients and two ministries involved. The Committee's *Report No. 1*, 1991 indicated the results of the discussions and the Committee's recommendations on various accountability aspects.

2.3
Ontario's Deficit

INTRODUCTION

In our 1989 and 1990 Annual Reports, we reported on various factors associated with government deficits in general, as well as specific comments related to Ontario's deficit. The purpose of this section is to provide an informational update.

DEFINITION

A government's deficit represents its excess of expenditure over revenue in any given year. A government's accumulated deficit equals the total of annual deficits, less any annual surpluses.

Ontario has had only one surplus in the last 20 years (year ended March 31, 1990). For the year ended March 31, 1991, Ontario's deficit was $3.0 billion, and its accumulated deficit was $38.4 billion.

1991 DEFICIT

The 1990 budget, which was tabled on April 24, 1990, forecast a surplus of $30 million for the year ended March 31, 1991. The actual deficit, as stated, was $3.029 billion, a variance of $3.059 billion from budget.

2.3 cont'd

The major factors contributing to this variance were:

- the extent of the recession, which was obviously not foreseen at the time of the budget;

  Total revenues were down by approximately $1.1 billion due primarily to the influence of the recession on taxation revenues. Excluding special payments, total expenditures were up by approximately $1 billion, with the increase in social assistance payments the major contributing factor.

- special payments which were not provided for in the budget.

  Special payments aggregating $924 million were made regarding the Ontario Teacher's Pension Fund ($196 million), Urban Transportation Development Corporation Ltd. ($407 million) and the Stadium Corporation of Ontario Limited ($321 million). The nature of these payments is explained in Sections 4.4 and 4.5 of this Report.

Pages 45 to 50 of the 1991 budget, tabled in the Legislature on April 29, 1991 provide a full description of all variances from budget to actual for the year ended March 31, 1991.

EFFECT OF DEFICITS

As covered in our 1989 Report, there are divergent views on the desirability of government deficits and accumulated deficits. For example, those opposed feel that:

- Deficits encourage inflation and higher interest rates.
- Deficits make governments vulnerable in times of recession.
- Deficits mean mortgaging our future.
- Excessive debt drains government resources, preventing the development of new initiatives.

While deficit accumulation has its detractors, there are others who maintain:

- There is no statistical evidence to link government borrowing and deficits with inflation or higher interest rates.
- Deficits are a tool for creating jobs and stimulating the economy.
- Deficits, rather than mortgaging our future, are paying for future benefits.
- Deficits are largely money we owe to ourselves.

There is general agreement, however, on the need for governments to carefully monitor and control any deficit situations. One yardstick, for example, that governments monitor over the longer term, is the growth in the accumulated deficit

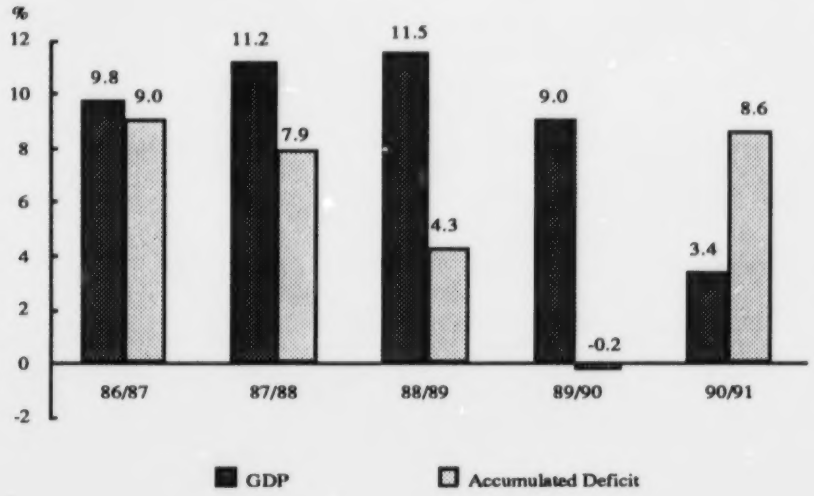
2.3 cont'd

compared to the growth in the economy as measured by the gross domestic product (GDP).

When growth in the accumulated deficit outpaces economic growth, this leads to greater borrowing and, over time, to a higher debt level, requiring an ever increasing percentage of revenues to be earmarked for debt interest. It then becomes more difficult to maintain existing levels of service, meet economic challenges or to introduce new initiatives.

The following graph compares the percentage change in Ontario's GDP to the percentage change in Ontario's accumulated deficit for the past five years.

COMPARATIVE GROWTH
ONTARIO GDP AND ACCUMULATED DEFICIT



As is evident from the graph, economic growth outpaced the growth in the accumulated deficit in each of the four years 1986/87 through 1989/90. However, the converse resulted in 1990/91, and significantly so.

Based on the fiscal projections contained in the 1991 Ontario budget, the converse direction will continue through 1994/95. It is expected to peak in 1991/92 (accumulated deficit growth of 25.3 per cent vs. GDP growth of 0.6 per cent) and to gradually moderate thereafter. The 1994/95 differential in growth rates, accumulated deficit vs. GDP, is expected to approximate that for 1990/91.

As previously noted, a consequence of such a fiscal pattern is increased borrowing and higher debt interest. As a percentage of total revenue debt interest is expected to rise from 9.9 per cent in 1990/91 to 12.3 per cent in 1993/94 and remain at that level in 1994/95.

Government Payments System

2.3 cont'd

CREDIT RATING

Bond rating agencies in Canada and the United States develop bond rating scales for securities issued by various governments. The ratings vary from triple A for highly rated investments to D for investments rated as low quality.

Following the release of the budget, forecasting a $9.7 billion deficit for the 1992 fiscal year as well as continuing deficits for the 1993, 1994 and 1995 fiscal years, Ontario's ratings were lowered from triple A to double A in most cases. Accordingly, interest rates on issues of Ontario and Ontario Hydro bonds are likely to be marginally higher.

2.4
Observations on the Government Payments System for Goods and Services

Payments for goods and services purchased by the Government are centrally controlled by the Ministries of Treasury and Economics and Government Services. For the 1991 fiscal year, the Province's expenditures for goods and services totalled approximately $3 billion.

SUMMARY

SCOPE AND OBJECTIVES

In conducting our cross-ministry audit of the government payments system for goods and services, we assessed the adequacy of:

- controls over such payments, including compliance with related Government policies and procedures; and
- protection against unauthorized access to and alteration of payment programs and data.

We audited a representative sample of payments made through the Treasury Payment Control System by ten ministries—Community and Social Services, Consumer and Commercial Relations, Culture and Communications, Environment, Government Services, Health, Natural Resources, Revenue, Solicitor General and Transportation. These ministries accounted for approximately 70 per cent of the $3 billion in expenditures.

We also audited the centralized recording and payment controls at the Ministries of Treasury and Economics and Government Services.

CONCLUSIONS AND FINDINGS

CONTROLS OVER PAYMENTS

We found that controls were satisfactory and that the system, in all material respects, was operating in accordance with Government policies and procedures.

2.4 cont'd

PROTECTION OF PAYMENT PROGRAMS AND DATA

Protection of payment programs and data against unauthorized access and alteration was less than satisfactory. We noted that:

- **controls were inadequate to ensure only fully tested and authorized changes were made to payment programs; and**
- **controls over access to payment data were unsatisfactory.**

OTHER MATTER

Significant benefits could be realized by standardizing accounts payable systems across ministries.

BACKGROUND

The payment system for goods and services within each ministry is governed by its policies and procedures manual. However, minimal requirements applicable to all ministries are outlined in the Manual of the Office of the Treasury (Treasury Manual).

Invoices for goods and services are received, approved and processed by individual ministries. For most payments, a requisition is forwarded to the Ministry of Treasury and Economics recommending that payments be made.

The Ministry of Government Services is responsible for the actual preparation and distribution of cheques, and the preparation of bank reconciliations for Treasury bank accounts.

COMMENTARY

CONTROLS OVER PAYMENTS

Controls are policies designed to ensure that payments are properly authorized, accurate, timely and are made only after the receipt of goods or services.

We examined these controls and tested to ensure that they were being followed. Although minor weaknesses were noted, **we were satisfied that, in all material respects, the payments system was functioning properly**. This conclusion was similar to that reached in our previous audit in 1987.

PROTECTION OF PAYMENT PROGRAMS AND DATA

Regarding the protection of payment programs and data—our second objective—some weaknesses noted in 1987 still exist. These include inadequate change controls and payment data not being sufficiently protected. Other problems noted in 1987 (possibility of cheques being produced without a payee name and inadequate segregation of duties) have been rectified. However, our current audit disclosed weaknesses regarding unauthorized changes to payment data.

Government Payments System

2.4 cont'd

Inadequate Change Controls

Access to programs used for payment processing should be restricted by the security administrator to an appointed librarian. This librarian should accept only tested and documented changes approved by users for creating new programs to process payments.

At one ministry, approval and testing of program changes were not documented unless programming effort was estimated to be greater than three days. In addition, the programmer instead of the librarian created new payment processing programs from changes.

Changes to computer programs without documentation, testing or approval can result in erroneous processing, fraudulent manipulation of data, or accidental by-passing of a control.

In one instance, a minor change caused errors in cheque production. Information on remittance advices did not match information on the face of the cheques. **This error was not discovered until 2,300 cheques had been produced and mailed. An additional 30,000 cheques had to be reproduced at a cost of approximately $6,000.**

At another ministry, inadequate testing of program changes resulted in 287 cheques totalling $6 million being mailed with incomplete payee names. At the time of our audit, 172 cheques had been cancelled and reissued while 115 cheques were still outstanding. One employee spent almost three weeks identifying and correcting erroneous cheques.

Payment Data Not Sufficiently Protected

Payment data should only be updated or deleted by authorized accounts payable staff within the originating ministry. Programmers should not be allowed to update or delete payment data because of their knowledge of payment file layouts and programs. If given the chance to update or delete data, they could destroy or divert payments from the intended vendor. In addition, "hackers" breaking into the computer pose a threat to unprotected payment data. Once into the computer, a hacker can readily update or delete unprotected data.

We tested security over payment data at ten ministries. **Five ministries allowed programmers to update or delete payment data. Furthermore, one ministry allowed most computer users to update or delete their payment data by not protecting it.** Unprotected files such as these could be readily accessed by unauthorized external persons using telephone lines.

Weak Processing Controls

The processing of accounts payable transactions by ministries should be controlled to ensure that payment files are not changed without authorization. There should also be controls for timely detection of unauthorized payments.

Comments on Cross-Ministry and Special Audits

2.4 cont'd

At five of the ministries which we examined, programmers were granted update access to payment files. None of these ministries were verifying the centrally-produced payment listings against their original data. Therefore, the ministries would not have detected unauthorized changes on a timely basis.

Although changed payment amounts would have been discovered during monthly reconciliations, changed payee names would not have been revealed until vendors inquired about missing payments. In a situation where payees' names were being changed deliberately, detection could be further delayed if an employee was changing other payments to cover an original infraction.

During our audit, no instances of changed payee names were detected. However, the Province issues approximately 8,000 cheques daily for goods and services totalling over $10 million. Fraudulently changing even a fraction of these daily payments could result in significant loss to the Province before being detected.

OTHER MATTER

Lack of Standardized Processing across Ministries

There is no standardized system across ministries for processing the Province's accounts payable. The ten ministries reviewed relied on five different accounts payable systems. At the time of our audit, at least three different systems were being installed or considered for replacing current systems. Even with these systems installed, there still would be five different systems in use.

Standardizing a system to process accounts payable could provide the following benefits to the Province:

- A government-wide approach could reduce expenditures. Prior to our audit, each ministry acquiring a different system paid the initial purchase costs for the system, annual maintenance fees, and salaries for system support. Since the Ministry of Government Services had already paid for government-wide usage of one financial system, it would not cost more for additional ministries to use this system. **A standardized system could reduce expenditures through decreased outlay costs, decreased maintenance fees, and fewer systems support staff.**

- **A government-wide system could simplify the process.** Different technologies, duplicate processing and different systems for storing the same data introduce complexity into the payment processing cycle.

- **Accounts payable information for any one vendor could be produced on a timely basis.** At the time of audit, each ministry had to be contacted to total the amount of purchases from any one vendor. **Government-wide information could provide a basis for negotiating better prices for goods and services.**

Government Payments System

2.4 cont'd
RESPONSE

The Deputy Treasurer responded with the following comments:

GENERAL

"In general, we are pleased to note that controls over payments were found to be satisfactory and that the system was found to be operating in accordance with government policies and procedures. We agree that improvements can be made and recognize that ministries need to be reminded of their responsibilities in order to further strengthen controls over the payment process."

PROTECTION OF PAYMENT PROGRAMS AND DATA

Inadequate Change Controls

"Treasury is currently developing a comprehensive security strategy to address the recommendations here and others elsewhere in the report."

Payment Data Not Sufficiently Protected

"Ministries will be reminded to protect their data and to restrict access to live data to staff who require this access in order to carry out their job functions."

Weak Processing Controls

"The comment [that 'ministries would not detect unauthorized changes on a timely basis'] implies that changed payee names could only be detected when vendors inquire about missing payments. A listing of cheques issued, showing the vendor number, name and the payment amount, is sent to ministries daily. Some ministries receive this information on computer files in addition to hard copy. Thus the facility already exists for ministries to check data on cheques issued to their original payment data, and thus detect any unauthorized changes. Ministries will be requested to perform this check on a periodic basis."

OTHER MATTER

Lack of Standardized Processing across Ministries

"A standardized system would facilitate improvements in the payment process such as consolidation of vendor payments, and would result in cost savings for the Province."

Comments on Cross-Ministry and Special Audits

2.5
Management of Government Microcomputers

Government ministries have purchased over 23,000 microcomputers, representing a total investment of over $100 million for hardware and software. Microcomputers are used to store and process information for a broad range of ministry programs and administrative functions.

SUMMARY

SCOPE AND OBJECTIVES

The audit focused on the security, acquisition and support of microcomputer systems at ten ministries: Agriculture and Food; Attorney General; Colleges and Universities; Community and Social Services; Energy; Housing; Industry, Trade and Technology; Labour; Municipal Affairs; and Solicitor General. These ministries own approximately 45 per cent of the microcomputers in the Government. For the purposes of this audit, a microcomputer was defined as a desktop computer designed for use by one person at a time.

Our objectives were to assess, on a cross-ministry basis, whether:

- microcomputers and data were protected against loss, misuse or destruction;
- acquisitions of microcomputer systems were adequately managed; and
- users of microcomputer systems were provided with adequate training and support.

We visited 62 sites across the Province, examined 438 microcomputers and interviewed 231 microcomputer users. Our sample included small sites, with only one or two microcomputers, medium-sized sites, with dozens of microcomputers, and large sites, with more than a hundred microcomputers.

Computer security studies point out that the primary threat to information systems is from employees who are familiar with the hardware, software and business of the employer, rather than intruders from outside the organization. We therefore limited the scope of our first objective to security risks posed by casual, day-to-day, unauthorized access rather than determined attacks by outsiders.

CONCLUSIONS AND FINDINGS

MICROCOMPUTER SECURITY

Microcomputer hardware was satisfactorily protected from theft, but information stored on microcomputer systems was unsatisfactorily protected and was therefore vulnerable to loss, misuse and destruction. We observed the following deficiencies:

- **Microcomputers holding confidential information were not adequately protected against casual access by unauthorized staff at 80 per cent of sites visited.**

Government Microcomputers

2.5 cont'd

- **Microcomputer data diskettes and the information stored on them were not adequately protected at the majority of the sites visited.**
- **None of the microcomputers we examined were adequately protected from potentially destructive "viruses."**
- **Security was inadequate for several microcomputer networks.**

MICROCOMPUTER ACQUISITIONS

Overall, microcomputer acquisitions were satisfactorily managed. However:

- **Although ministries had policies banning unlicensed copies of commercial software, we found such software at one third of sites visited. This could leave the Government vulnerable to lawsuits for copyright infringement.**

MICROCOMPUTER TRAINING AND SUPPORT

Practically all microcomputer users we interviewed reported that they were provided with satisfactory training and support.

OTHER MATTER

Unsatisfactory password security allowed access to other computer systems at one half of the ministries visited.

BACKGROUND

The ten audited ministries had standardized on IBM-compatible microcomputers for their desktop computing needs. They used microcomputers for word processing, telecommunications, spreadsheet and database applications. The acquisition procedures for microcomputer hardware and software are defined by Management Board Directives. Protection requirements are defined by both the *Freedom of Information and Protection of Privacy Act* and Management Board Directives.

Prior to the start of our field work, Management Board Secretariat informed each ministry about the audit. We also notified each site at least 48 hours before each visit. The majority of our site visits lasted half a day. In some cases, we made an effort to examine machines storing information about government employees and the public, but we chose most of the microcomputers examined at random.

COMMENTARY

MICROCOMPUTER SECURITY

Information Not Adequately Protected

Many ministry microcomputers store personal information about employees and the public, the privacy of which is required to be protected from unauthorized disclosure by the *Freedom of Information and Protection of Privacy Act*. They also store confidential Government information.

2.5 cont'd

Microcomputers held confidential information at 48 of the 62 sites we visited. At about 80 per cent of these sites, this information was not adequately protected against casual access by unauthorized persons.

As examples of information which should have been protected but was not, we found performance appraisals for bargaining unit and management staff, briefing notes for Ministers, credit rating information of members of the public, corporate credit card numbers and expiry dates and corporate long distance calling card numbers. Unauthorized access to such information could result in a variety of types of misuse, such as fraudulent use of credit or calling cards and attendant cost to the public purse.

Staff Unaware of Confidential Information

Staff were generally unaware of the confidential information stored on their microcomputers and diskettes which required protection under the *Freedom of Information and Protection of Privacy Act.*

None of the sites we visited had created an inventory of the information stored on their microcomputer systems and none had categorized the information to determine confidentiality so that applicable controls could be implemented.

At these sites, confidential information stored on paper was locked in a safe or filing cabinet. When the same material was written to a computer disk, we found it was not as well protected.

Information Stored on Diskettes Not Protected

Information stored on diskettes is often the same as information stored on the hard disk of a microcomputer. During our interviews, we asked users if their diskettes were locked up when they were away from their desks. **At nearly 65 per cent of the sites, users told us diskettes were not secured during breaks or lunch or after working hours.**

No Protection from Destructive Programs

An increasing number of potentially destructive computer programs are being created and distributed as either practical jokes or deliberate acts of sabotage aimed at the information stored on computer systems. These computer programs, commonly called "viruses," are spread from machine to machine over computer networks or when software is copied and shared between users.

On some of the machines we examined, virus-detecting software was found, but **we found no evidence of software available to shield microcomputers from these destructive programs.** We also found no evidence of policies or procedures dealing with this growing menace.

We found only one machine which had been disabled by a destructive program, but some of these programs can replicate themselves and expand geometrically over an unlimited number of microcomputers in a short time.

Government Microcomputers

2.5 cont'd

Inadequate Security for Networks

Microcomputers linked together in a network are a particular concern because information from a variety of users is stored on a common microcomputer which is shared by many users. If the common microcomputer or its contents are changed or unavailable, these users could lose their information. It is often necessary to prevent one user from reading, altering or deleting information stored by another.

We checked the protection of thirteen microcomputer networks and judged it inadequate at five locations. At all five locations, anyone with physical access to the common microcomputer could read, alter or delete any of its information. In four locations, we were able to change the password of the system administrator and gain access to the network with no restrictions.

MICROCOMPUTER ACQUISITIONS

Generally, microcomputer hardware and software was acquired in compliance with Management Board Directives and the ministries' purchasing policies and procedures.

Unlicensed Copies of Commercial Software

We considered unlicensed software to be products for which there was no purchase order, proof of purchase, or original diskette and manual. **All ministries which we audited had policies banning unlicensed copies of software but at the time of our audit none had reviewed their microcomputers to ensure compliance with these policies.**

Despite the existence of policies and advance notice of our visits, one third of the sites had unlicensed copies of commercial software. Also, there was evidence that other commercial software not listed in inventory records had been deleted from the hard disks of microcomputers we examined.

An association of software developers has pursued charges against organizations in Canada and the United States for possession of unlicensed software. Penalties for violation of the Canadian *Copyright Act* range from $25,000 for a summary conviction to $1 million for an indictable offence, plus up to five years in jail. In addition to the criminal penalties, several civil remedies are open to software developers.

MICROCOMPUTER TRAINING AND SUPPORT

Adequate training and technical support for new users is necessary to maximize the benefits of microcomputers and minimize any negative impact due to the introduction of new technology. We found the ministries had adequately responded to this challenge.

Practically all staff we interviewed reported receiving enough training to do their jobs. They were also satisfied with the technical support

2.5 cont'd

they were receiving from the systems staff at their respective ministries.

We noted that many common, microcomputer-related requirements of different ministries in the same city or area of the province were being met by duplicate efforts. For example, in most cities several ministries required training and support for identical microcomputer software, but each ministry made arrangements independently.

However, in one area, ministries had established an innovative Inter-Ministry Systems Council which allowed them to avoid duplicating efforts for training, support and maintenance by regularly communicating with each other about common interests.

OTHER MATTER

Passwords Not Protected

At five of the ten ministries audited, we found all the information required to gain access to computer systems over telephone lines, including phone numbers, user names and passwords. These systems included two mainframe computers, three minicomputers and one microcomputer. Some information was pinned to a wall, some was taped to keyboards and some was left on a desk.

Many dial-up computer systems rely on passwords to restrict access. Failure to protect passwords is a serious security breach which could lead to unauthorized disclosure of, or changes to, personal or Government information or to the destruction of that information.

RESPONSE

The Secretary of Management Board of Cabinet responded to our report and attached the comments of the ten audited ministries, which included the corrective action being taken. The Secretary made the following general comments:

"To help ensure that the benefits of the report are maximized, I have provided all deputy ministers with a copy of your report. Ministries were asked to review the findings and conclusions and to take appropriate corrective action, where necessary.

"Management Board directives and guidelines provide an appropriate framework for the proper acquisition, security and support of microcomputer systems. However, the operational responsibility and accountability for the systems clearly rest with the deputy ministers of the various ministries where the systems are located. Virtually all of the findings and conclusions in the audit report concerned operational matters that are the responsibility of deputy ministers. . . ."

"In respect of the applicable Management Board directives and guidelines, the Directive on Security was approved by Management Board and distributed to all ministries in March, 1990. The Manager's Guide, to assist ministries in implementing the directive, was distributed to all ministries in May, 1991.

Government Minicomputers

2.5 cont'd

"The Secretariat has held a number of awareness sessions with the ministries and we are currently developing a training program in support of the Security Directive and Manager's Guide."

The information technology directive referred to above was approved by Management Board of Cabinet on February 27, 1990. It forms part of the ongoing implementation of Management Board's *Strategies for the Management of Information Technology*. Ministries were required to submit action plans for meeting the directive as part of their Information Technology Strategic Plans filed after April 1, 1990.

2.6 Management of Government Minicomputers

Management Board has estimated that over 220 minicomputers are in use in the Government. Management Board has developed Directives on information systems, including minicomputer confidentiality, integrity and availability requirements.

In fiscal 1989/90, ministries alone spent $19 million on minicomputer hardware and software.

SUMMARY

SCOPE AND OBJECTIVE

Our audit objective was to assess controls over security of minicomputer systems on a cross-ministry basis. Controls included user access to programs and files, physical control over hardware and sensitive reports, and changes to system software and application programs.

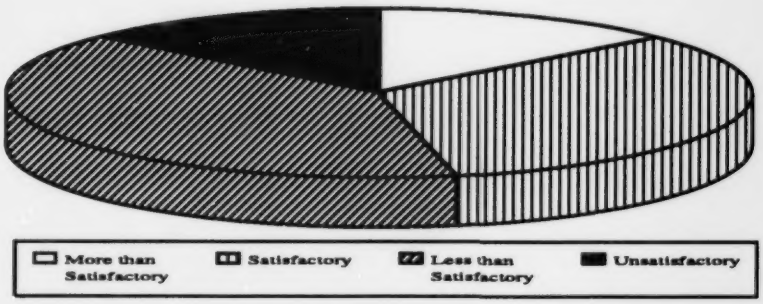
We audited fifteen ministries and agencies with over 70 per cent of the Government's minicomputers: Community and Social Services; Culture and Communications; Education; Environment; Government Services; Health; Labour; Municipal Affairs; Natural Resources; Northern Development and Mines; Tourism and Recreation; Transportation; Treasury and Economics; Liquor Licence Board of Ontario; and Ontario Securities Commission.

For the purposes of this audit, a minicomputer was defined as a medium-sized computer designed to allow multiple users the potential to read, change and delete information. Our audit did not include an examination of controls over minicomputers connected to other computers. Therefore, our opinion does not reflect the positive or negative effects of the network on the minicomputers we reviewed.

2.6 cont'd

CONCLUSIONS AND FINDINGS

Overall, the control over security of the minicomputers was less than satisfactory.



We noted the following:

- **users could acquire unlimited system privileges at one third of the sites audited;**
- **computer security policies were lacking at twelve sites;**
- **change controls over software were inadequate at seven sites;**
- **security duties were performed on an informal and unscheduled basis at seven sites;**
- **security administration was inadequate at eight sites;**
- **passwords were easily guessed at nine sites;**
- **programmers had excessive authority to update production data at two sites;**
- **data access rules were insufficiently documented at eight sites; and,**
- **physical security was satisfactory at all sites.**

Only nine of the fifteen minicomputers were used for delivery of government services. At other sites, the minicomputers were used for developing new application systems and had less stringent confidentiality and availability requirements.

Government Minicomputers

2.6 cont'd

BACKGROUND

Our audit reviewed controls over security of minicomputers from two suppliers representing about 75 per cent of the installed government minicomputers.

Ministries and agencies use minicomputers for their mid-range, multi-user computing requirements such as financial, electronic mail, database, word processing, telecommunication and spreadsheet applications. Government employees rely increasingly on these systems for decision-making and administrative support.

Poor security for minicomputers could lead to embarrassment, litigation or financial loss through unauthorized disclosure or modification of programs or information. For example, ministry staff could make erroneous decisions based on bad information from these systems, or could delay decisions with financial implications because the information was not readily available. Also, cabinet or ministry confidential information carried over the electronic mail network could easily be leaked.

To accommodate many persons using one computer simultaneously, minicomputers have security features designed to protect the confidentiality and integrity of stored information and availability of computer resources. Protection requirements for minicomputers are defined by both the *Freedom of Information and Protection of Privacy Act* and Management Board Directive.

COMMENTARY

SECURITY

Systems Vulnerable

Minicomputers by design allow only privileged users, such as the System Manager, to create a new user, change a password or authorize a user to change information.

On four minicomputers, this primary control could be by-passed. Any user could change files regularly run by these privileged users. These changes could then grant similar privileges to the user when the changed file was run by the privileged user. Thirty percent of the users on a fifth minicomputer could accomplish the same thing.

Having gained privilege, a user could easily access any information on the system. This access could lead to violation of an individual's privacy or to unauthorized changes to programs and data. Therefore, files regularly run by privileged users should be protected from general access.

Lack of Security Policies

Computer security policies define acceptable practice or behaviour for administering or using a minicomputer. Without written formal security policies, employees may not be aware of their authorities and responsibilities for the information they administer or use.

At twelve of the sites, no documented security policies for administering or using minicomputer systems were available. Ministry and agency managers should ensure the definition and enforcement of access rights

2.6 cont'd

that identify, for all data and data processes, the employees who can access the information, the types of access permitted, and the conditions for access. While some ministries were planning or actively creating security policies, at the time of the audit, only three ministries had implemented security policies.

Insufficient Change Controls

Any modifications to the information technology environment—for example, hardware, network or computer program changes—should be carefully managed so that the integrity of data and data processes is maintained. Appropriate controls should be in place for ensuring all changes are authorized, tested and reversible if necessary. The process of introducing and maintaining changes is called 'change control'.

At five sites, change control procedures were inadequate for operating system upgrades. There is a potential for major problems when a new version of an operating system is installed because existing application software may not be compatible with the changes and may suddenly cease to function.

Of nine minicomputers storing ministry application software and data, five had inadequate controls over changes to the ministry software. For instance, there were no rules requiring changes to application software to be tested before accessing critical data, a situation that could lead to corrupt data and inaccurate information.

Software changes should be initiated by the application system owner and reviewed with systems staff for designing and programming of the required changes. Before implementing changes, programs should be fully tested and reviewed by the user who then approves implementing the modification. Good change controls promote the accuracy and reliability of information and reduce the risk of loss due to unauthorized modification or incomplete testing.

Inadequate Segregation of Duties

For minicomputers from one manufacturer, the System Manager is responsible for ensuring the computer functions efficiently and performs the tasks required by management and the users. Conversely, the Security Officer is primarily responsible for granting access to authorized users. When the System Manager is assigned the additional function of Security Officer, the conflicting responsibilities can compromise security.

System Managers for five minicomputers had been assigned the additional function of Security Officer.

At each site, we examined the job specifications and reviewed the duties performed by the person identified as the Security Officer. **At seven of the fifteen sites, the job specifications of the individuals did not mention security duties, which were performed on an informal and unscheduled basis.**

2.6 cont'd

Inadequate Security Administration

When employees leave a ministry, they are no longer authorized to read, change or destroy information, whether on paper or in a computer. Office keys and identity cards are routinely collected to bar former employees from ministry offices, but only one ministry promptly disabled access to the minicomputers of one manufacturer. **Former employees often had computer access over public telephone lines to the other nine minicomputers of that manufacturer.**

These minicomputers can produce security reports, allowing the system operator to monitor attempted and successful access to the minicomputer and critical information. The security reports were available on all the minicomputers, but **at six sites we found no evidence that reports had been formally reviewed.**

Minicomputer users are assigned unique accounts for identification and authorization of their access to data. The accounts, being unique, are also a means of holding the user accountable for their actions when using the minicomputer.

At ten sites, users could share accounts. Programmers shared an account as did data entry clerks and their managers at one site. At the other nine sites, at least one account and its corresponding password were shared by multiple users. In such cases, unauthorized use or damage of programs and data could not be attributed to a specific person.

Poor Password Management

Password protection is a primary control to restrict access to a minicomputer. Authorized users must identify themselves with a name assigned to them and a corresponding password. Users are responsible for choosing and periodically changing their passwords.

Because user names are generally known within a ministry, passwords must be kept in strict confidence. All ministries place reliance on some form of password control to prevent unauthorized access, for example over public telephone lines.

Since ministries place reliance on password controls, there must be formal, written standards associated with their use. However, documented password standards did not exist at any of the sites visited. Undocumented standards contributed to the following problems.

Users' passwords for minicomputers were compared against a list of commonly-used passwords. **For nine of the minicomputers, at least one in four user passwords were on the list.** Commonly-used passwords could be used by 'hackers' to gain unauthorized access to the minicomputer.

At one site, permissible one-character passwords allowed for both trivial and easily guessable passwords. Also, passwords were not required to be changed at this site, and inactive terminals were not disconnected after a period of inactivity at this site. Minicomputers provide features to prevent such security exposures with little or no administrative cost.

2.6 cont'd

To gain access, a user must usually enter a user name and its associated password. **Yet, at one site, users entered only a password to access the minicomputer.** The use of the available feature requiring both a user name and password for access would provide better security.

Password standards should be developed and communicated to employees who use minicomputers. Topics such as prohibiting the sharing of accounts, choosing non-trivial passwords, and changing passwords should be included.

Inadequate Data Integrity

A Management Board directive defines data integrity as accurate, complete, authentic and timely data and data processes. To promote data integrity, there should be procedures to:

- ensure adequate segregation of duties between information systems development, processing and support;
- ensure that information and information systems are accessed according to established policies and procedures;
- document and schedule all planned changes to information systems;
- ensure the initiation of only authorized changes;
- ensure that controls are in place to prevent unauthorized changes to information systems; and
- ensure that information processing problems are detected and corrected on a timely basis.

Users should only have access to programs and data needed for their job. For example, programmers need update access to application programs but not to the corresponding data files. Conversely, users do not need update access to application programs. By restricting access, the risk of accidental or deliberate damage to the system, programs and data is reduced.

At eight sites, rules had not been defined to indicate what data employees could access, or the conditions or level of access permitted. Documentation was also lacking for the formal authorization of user access.

At one site, a programmer had access to all data and software on the minicomputer. Programmers at another had update access to financial data. In addition, the site did not have documented evidence to show that programmers or other users had appropriate access.

Government Minicomputers

2.6 cont'd

Physical Security Adequate

At all locations, minicomputers were in physically secure office areas, with access limited to appropriate personnel.

RESPONSES

The Deputy Minister of Management Board of Cabinet responded to our audit report and attached the comments of the fifteen audited ministries and agencies, which included the corrective action being taken.

One Ministry commented on the evolution of minicomputers: *"Minicomputers... were initially purchased and used to process information for small numbers of people, usually to satisfy a local specific information demand... The minis were traditionally much less well protected [than mainframes], since the loss of a mini threatened only local interests and not those of an entire organization.*

"Minicomputers started to get bigger and capable of doing more. Therefore, information systems that used to be run on mainframes for an organization were now capable of being put on minis. This, therefore, called for a 'mainframe-like' level of... security approaches. Secondly, minicomputers were able to be networked. This meant that suddenly information could be shared across an entire organization and was no longer merely a local concern."

Management Board: *"You note in your report that Management Board has developed directives on information systems, including minicomputer confidentiality, integrity and availability requirements. A Manager's Guide, to assist ministries in implementing the directive on security, was distributed to all ministries in May, 1991. The Secretariat has also developed a two-day training program in support of the directives, and we plan to offer it on a monthly basis throughout 1991/92.*

"Based on the findings in your report, I have also issued a memorandum to all deputy ministers stressing the importance of proper information technology security practices."

Comments on Cross-Ministry and Special Audits

2.7
Management of Government Mainframe Computers

The Ministries of Correctional Services, Government Services and Revenue use the Resource Access Control Facility (RACF) security software package to control access to the five government mainframe computer centres operated by these ministries.

SUMMARY

SCOPE AND OBJECTIVE

Our audit objective was to assess whether management of the RACF security package was effective in controlling access to government information on mainframe computers. RACF has a pervasive impact on the accuracy, completeness, availability and reliability of computer-generated financial data.

For the purposes of this audit, a mainframe computer was defined as a large-sized computer designed to allow multiple users the potential to read, change and delete information.

Mainframe computers are used to store and process information for health, corrections, transportation, and other ministry programs and administrative functions.

CONCLUSIONS AND FINDINGS

We concluded that the management of RACF at the Revenue Computer Centre was more than satisfactory in controlling access to information. Moreover, our findings suggested that data on the Ministry of Revenue (MOR) system was well protected from unauthorized modification, disclosure, or deletion.

However, we concluded that the management of RACF at centres operated by the Ministries of Government Services (MGS) and Correctional Services (MCS) was unsatisfactory.

In summary, we found:

- **need for improvement in the protection of powerful programs, which can by-pass normal system controls and can access any program and data file on all the computers;**
- **excessive numbers of users with privileges to use powerful programs at MCS and MGS sites;**
- **unsatisfactory controls over passwords and software at the MCS site;**
- **key system options such as the options for protecting all files and for password encryption not being used at MCS and MGS sites;**
- **some technical support staff at all sites with the facility to change system parameters and libraries, which could have caused widespread disruption of service;**

Government Mainframe Computers

2.7 cont'd

- **users at all sites who could change the audit trail information recorded by the system, making it possible to conceal unauthorized activity on the system; and**
- **numerous users at MCS and MGS sites had unrestricted access to all data and system resources.**

In summary, data on systems at MCS and MGS sites were exposed to unauthorized modification, disclosure or deletion. Disclosure of information about individuals could violate Management Board Directives, the *Freedom of Information and Protection of Privacy Act* and, where applicable, the *Health Act*.

BACKGROUND

The audits focused on the management of RACF at the following computer centres:

- Kingston Regional Computing Centre (MGS);
- North Bay Computer Centre (MCS);
- Revenue Computer Centre (MOR);
- Toronto Development Centre (MGS); and
- Toronto Production Centre (MGS).

The MGS data centres house the government payments system, the health insurance system, and the government-wide payroll system, while the MOR data centre houses the system which controls property tax assessment rolls and various tax administration systems. The MCS data centre houses the Offender Management System.

RACF is used by these ministries to control access to government programs and data on their mainframe computers. RACF clears requests from users who wish to access a protected resource, such as a data file or program. RACF is preventive in nature, in that it limits access to certain resources to specific individuals. It also provides an audit trail of these accesses, thus acting additionally as a detective control.

Security on mainframes is necessary for the protection of confidential and corporate government data from unauthorized disclosure and accidental or deliberate destruction or change.

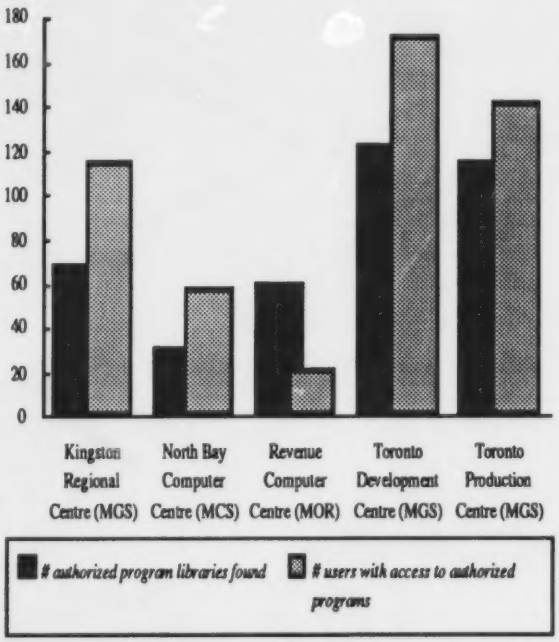
2.7 cont'd
COMMENTARY

CONTROL OVER AUTHORIZED PROGRAM *LIBRARIES*

Authorized Program Libraries Inadequately Protected

Software vendors have supplied powerful programs, commonly referred to as *authorized programs*, that can access restricted machine instructions and all main memory in the computer as part of system operation and maintenance procedures. These *authorized programs* can by-pass or disable all security mechanisms, and can access and control all programs and data on the system. Therefore, access should be restricted to necessary personnel.

AUTHORIZED PROGRAM LIBRARIES AND USERS WITH ACCESS



Programs gain authority by virtue of their placement in *authorized program* libraries. A library is an organized collection of computer programs maintained by the operating system and made available to users to reduce the work of programming. **Users at all five sites had the ability to make changes to the *authorized program* libraries, and therefore could have changed any program or data on the system.**

***Authorized program* libraries should be given unique and special protection by RACF** and the quantity of *authorized programs* and libraries needs to be critically examined. Controlling and monitoring access to many programs is a difficult if not impossible task.

Authorized Program Libraries Not Found

Authorized program libraries are listed in the system parameters. Any program in these listed libraries could be authorized to by-pass or disable security mechanisms. At the three MGS sites, approximately 15 per cent of the *authorized program* libraries listed did not actually exist on the system. Therefore, many technical users could have created libraries with the names on the parameter list, which would have allowed them

2.7 cont'd

to substitute their programs. Using their substituted programs, these users could then have by-passed security controls and changed any program or data on the system.

Authorization lists should be reviewed, and any obsolete and duplicate library names should be deleted. Authorized program names should be reviewed regularly and deleted as necessary.

CONTROL OVER RACF SOFTWARE

At the Revenue Computer Centre, control over the RACF software and its use was more than satisfactory. In particular, controls over the command used to activate or disable RACF and its password were commendably secure. MGS sites had satisfactorily controlled access to RACF passwords and software.

But at the North Bay MCS site, we found that **the Information Security group does not control the use of the command used to turn off RACF, and that the password for the command has not been changed from the original password.** Unauthorized users could therefore have used the command to turn off RACF. The RACF command should be limited, and the original password should be changed.

We also found at the North Bay MCS site that **there were many technical support personnel with the capability to make unauthorized changes to the RACF database.** These users could have created, removed, and granted any user access to any data. Access to the RACF database should be limited to prevent unauthorized changes.

SYSTEM OPTIONS

At the Revenue Computer Centre, we found that the controls over the RACF options in place were satisfactory. In particular, the RACF option which specifies that users may only create or access RACF-defined files was in effect. As well, the passwords in the RACF security file were encrypted using the Data Encryption Standard.

The use of passwords enables RACF to verify quickly and easily the identity of a user attempting to gain entry to the system. Passwords can be stored in the RACF security file as either masked or encrypted. Masking is a process which hides the meaning of text by shifting or substituting characters. Encryption, on the other hand, is the process of changing readable text into unintelligible text. Encryption provides 'one-way', irretrievable passwords. RACF supports the use of the Data Encryption Standard (DES) to prevent passwords from appearing in clear text. Without the use of DES, anyone with knowledge of the masking process could retrieve users' passwords.

The Revenue Computer Centre was the only government data centre to make use of either system option.

2.7 cont'd

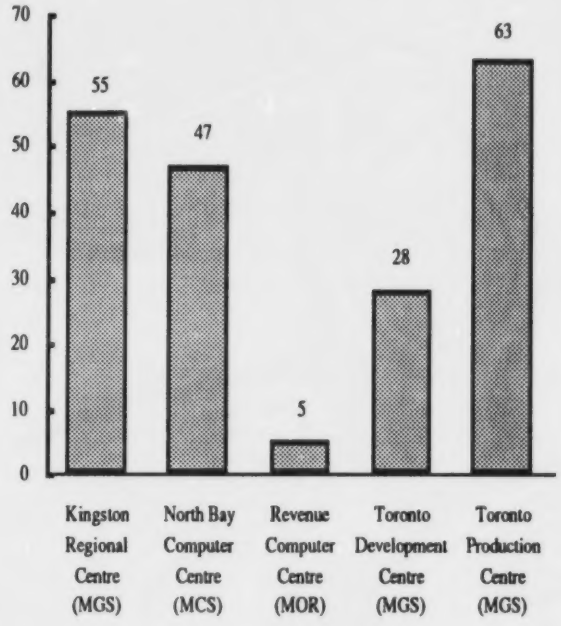
CONTROL OVER ACCESS TO SYSTEM LIBRARIES

Excessive Access to System Parameters

Technical support staff at all five sites had update access to the system parameter library, which is used to specify operating system features, such as the system audit trail options and the list of *authorized programs*. These technical support staff could have substituted their programs for legitimate system programs by changing system parameters.

Also, there were many technical support staff at the MCS and MGS centres with update access to other system libraries containing system programs, the system master catalogue, and installation specifications. Accidental or intentional changes to these libraries could cause widespread disruption of service.

NUMBER OF USERS WITH ACCESS TO SYSTEM PARAMETERS



Access to system libraries should be restricted to necessary personnel.

2.7 cont'd

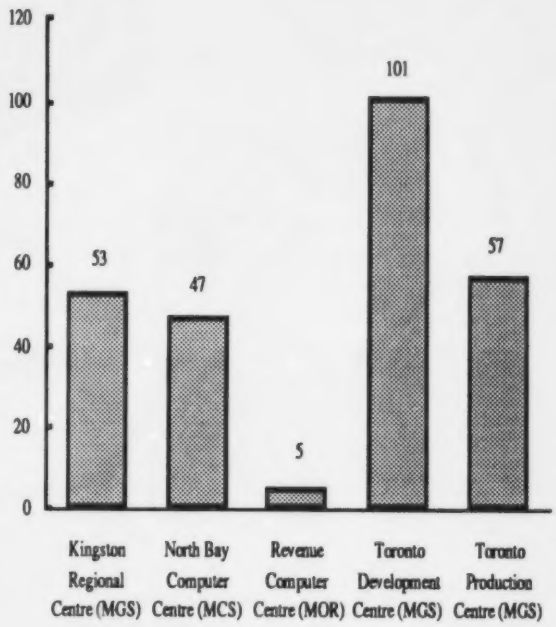
AUDIT TRAILS AND SECURITY REPORTING

Inadequate Controls over Audit Trail Data

Any access to information on the computer is captured by the primary audit trail for the operating system. As seen in this chart, **users at all sites could change the audit trail data recorded by the system**. As well, many users could change the system parameters used for selecting the types of activity recorded in the audit trails.

These capabilities make it possible to delete or change audit trail information **and thus conceal activities on the system**. Of grave concern were the excessive number of users who can also change supplementary system audit trails, such as the hardware and software error log. No one should be granted the ability to change audit trail data.

NUMBER OF USERS WITH ABILITY TO CHANGE AUDIT TRAIL DATA



CONTROL OVER PASSWORDS

At all sites except the Kingston Regional Computing Centre, the controls over the RACF password options in place were satisfactory.

RACF optionally allows definition of the minimum length of passwords and the type and position of numbers and characters to be used. This option prevents users from selecting passwords such as a single letter or number that are easily guessed.

However, this option was not utilized at MGS' Kingston Regional Computing Centre, and users could select a one-letter password for access to the system. A reasonable minimum password length should be established.

To prevent unauthorized access to the system through repeated attempts, RACF allows definition of the maximum number of invalid access attempts. After this maximum is

2.7 cont'd

reached, RACF disconnects the user, preventing further attempts to gain access to the system.

The maximum number of access attempts allowed at MGS' Kingston Regional Computing Centre is 15, which is too many. This number should be reduced, as the greater the number of attempts allowed, the greater the possibility of unauthorized access.

EXCESSIVE ACCESS TO POWERFUL PRIVILEGES

There were numerous users at the MGS sites with the SPECIAL attribute that permits unrestricted access to all programs and data, and can allow the user to authorize additional users with any level of access.

There were also **numerous users at the MCS and MGS sites with the OPERATIONS attribute** that permitted these users to alter, copy or destroy all programs and data.

The assignment of these privileges should be more restricted.

RESPONSE

The Deputy Ministers of Correctional Services, Government Services and Revenue responded to our audit report.

CONTROL OVER *AUTHORIZED PROGRAM* LIBRARIES

Government Services: *"A detailed review was undertaken of [the Ministry's] authorized program libraries. While access to these libraries had been delegated to those responsible and accountable for ensuring their operational efficiency, the number of... staff with access to these libraries has now been reduced substantially. Auditing options have been activated that monitor all access activity to these libraries, with direct on-line notification to... Information Security. In addition, a process has been put in place whereby... Information Security must give approval for a library to be authorized.*

"Authorization lists have been reviewed and any obsolete and duplicate library and program names have been deleted."

Correctional Services: *"Programs will be globally protected at the library level with more restricted access.*

"There will be an immediate review of the 7,000 authorized programs, and access will be restricted to technical personnel who require it. The technical support librarian will put an audit trail in place to record all update events.

"This will increase our level of security to a level that we feel is appropriate."

2.7 cont'd

CONTROL OVER RACF SOFTWARE

Correctional Services: *"It is agreed that the Information Security Group must take over control of the command used to turn off RACF, and the password will be changed. Access to this command will be restricted to necessary technical personnel.*

"Access to the capability to change the RACF data base will be restricted to the Information Security Group and authorized security operators."

SYSTEM OPTIONS

Government Services: *"[We] will implement the encryption standard once client requirements are met through the availability of new job submission software."*

Correctional Services: *"[The] Data Encryption Standard will be used, and the method to ensure that removed data cannot be read will be enabled."*

CONTROL OVER ACCESS TO SYSTEM LIBRARIES

Government Services: *"Update access to system libraries has been reduced substantially. [The Ministry] is implementing enhanced procedures that will further reduce the update access to system libraries. As well, [the Ministry] continues to monitor all activities with immediate on-line notification now being received by... Information Security."*

Revenue: *"Access to system libraries is restricted to five system programmers. We do not believe that this can be reduced given their critical operational and recovery role. No other users have update access to these libraries."*

Correctional Services: *"Access to system libraries will be reviewed. We will reduce the access capabilities of the current 47 technical staff and restrict it to necessary technical personnel only."*

AUDIT TRAILS AND SECURITY REPORTING

Government Services: *"[The Ministry] has examined the controls on its audit trail files and has eliminated update access at all sites. Protection of these files has also been increased with more specific security controls."*

Revenue: *"We do not consider that access by five userids is excessive. Some organizations have one userid connected for maintenance purposes to this file, however, this standing access is often shared by more than one person.*

"Sharing userids is a greater exposure than the controlled and limited access environment we have established for our five userids, as it detracts from the principle of individual ownership and accountability."

2.7 cont'd

Correctional Services: *"As recommended, Information Security will remove all RACF-controlled capabilities to delete or change audit trail data immediately."*

CONTROL OVER PASSWORDS

Government Services: *"[The Ministry] has obtained agreement from the Ministry of Health to implement a minimum password length... The Ministry of Health has [also] agreed to a reduction of the maximum number of invalid sign-on attempts before further access is automatically denied."*

EXCESSIVE ACCESS TO POWERFUL PRIVILEGES

Government Services: *"Access privileges have been reduced at all three sites and the use of privileges by staff is audited and reviewed daily."*

Correctional Services: *"The OPERATIONS attribute will be removed from all technical services personnel, and will be restricted to necessary personnel in the Data Centre Operations Group. A mechanism for controlled but quick access to the privilege will be provided to the Data Centre supervisor. This will allow rapid response to emergency situations. Immediately after use, the temporary user code will be revoked, and the access passwords will be changed by the Information Security Group."*

2.8
Inspection Audit, The Toronto General Division of The Toronto Hospital, Ministry of Health

In October 1986, the Toronto General Hospital and the Toronto Western Hospital merged to form The Toronto Hospital. The former hospitals were established as divisions of the new hospital. Our audit focused on the Toronto General Division, which is an 870-bed facility offering numerous in-patient and out-patient services.

During the 1990 fiscal year, the hospital had expenditures of $281 million and revenue of $267 million. Revenue consisted of $192 million from the Ministry of Health and $75 million from other sources.

SUMMARY

SCOPE AND OBJECTIVES

We examined the adequacy of accounting records and related procedures for non-payroll expenditures. Specifically, our examination included the acquisition of goods and services and the inventories of controlled and non-controlled drugs. The audit covered the 1990 fiscal year and the first six months of the 1991 fiscal year.

Inspection Audit, Toronto General Division, The Toronto Hospital

2.8 cont'd

CONCLUSIONS AND FINDINGS

ACQUISITIONS

Due to lack of documentation, we were unable to conclude whether appropriate acquisition procedures had been followed:

- **Documentation was not on file at the time of our audit to support acquisition decisions totalling $4.3 million, including the purchase of laundry services exceeding $3 million.**

  In addition, senior management would not provide us with documentation on the selection process for other purchases totalling $3.2 million. They stated that these items were not funded by the Ministry of Health, and consequently were beyond the scope of our inspection audit. These purchases included the acquisition of computer equipment totalling $1.2 million.

- **Required approvals for purchases totalling $1.6 million were not on file at the time of our audit.**

INVENTORIES

Safeguarding of all drugs was satisfactory as was the record keeping for controlled drugs. However, record keeping for non-controlled drugs was unsatisfactory. Significant differences existed between recorded and actual stock on hand.

Controls over equipment were satisfactory, however there had been no physical verification of easily moveable equipment.

OTHER MATTER

Senior management declined to provide us with information on the savings realized from the merger of the Toronto General Hospital and the Toronto Western Hospital, stating that such information was beyond the scope of our inspection audit. At the time of our audit, Ministry of Health officials were unaware of any formal attempt to quantify savings or to determine whether the merger has, in fact, generated economy.

COMMENTARY

ACQUISITIONS

Acquiring goods and services by competitive practices helps ensure that the best value is received for funds expended, that vendors are treated fairly, and that the firm selected is the best qualified to meet requirements. Accordingly, the hospital's policies require that equipment, medical and surgical supplies and other supplies and services be acquired through a competitive process. Policies allow for the waiver of competition for sole suppliers and preferred suppliers.

2.8 cont'd

For the 1990 fiscal year, the hospital spent approximately $93.8 million on equipment, medical and surgical supplies and other supplies and services.

Lack of Documentation to Support Acquisition Decisions

To assess compliance with policies, we selected a representative sample of purchases totalling $17.9 million. We determined that policies had been followed and decisions documented for purchases totalling $10.4 million.

However, we were unable to determine whether policies had been followed for 36 purchases totalling $7.5 million. For 27 of these purchases totalling $4.3 million, we found:

- one purchase costing $3.2 million for laundry services from a central laundry corporation established in 1965 by several downtown Toronto hospitals, including the Toronto General Hospital. The 20-year agreement between the hospital and the laundry corporation expired in 1988. However, the hospital continued with the arrangements. **We could find no evidence to indicate that the cost of these services compared favourably with the costs of services available from similar suppliers.**

  As a result of our inquiries at the time of the audit, senior management wrote a memorandum to file that compared the rates charged by two similar laundry facilities with the rates of the central laundry. However, we were unable to make any meaningful comparisons from the information provided in the memorandum as the rates were determined on different bases; and

- **twenty-six purchases totalling $1.1 million for which documentation was not on file at the time of our audit to indicate either the use of competitive practices or the reasons for waiving competition**. Twelve of these purchases, each over $25,000, totalled $1 million. Senior management maintained that many of these purchases were made from either preferred vendors or sole suppliers.

For the remaining nine purchases totalling $3.2 million, senior management would not provide us with documentation on the selection process. One purchase was for computer equipment costing approximately $1.2 million. Senior management stated that these items were not funded by the Ministry of Health's operating grants and consequently were beyond the scope of our inspection audit. Because the hospital operates with one main bank account, we could not verify that these items had been purchased from non-Ministry funds.

We also found that approvals for purchases totalling $1.6 million were not on file at the time of our audit. Senior management informed us that approvals had been obtained, but that they had been misplaced during the recent relocation of the purchasing department.

Good business practices require that documentation be kept on file to support acquisition decisions. Furthermore, to ensure that competitive practices

2.8 cont'd

are used when possible, the approval of the Board of Directors would be advisable for exceptional situations over an established dollar limit when it is necessary to waive competition. Alternatively, management could periodically provide the Board with information indicating the contracts awarded during a given period and the details of any exceptional situations where competition was waived.

INVENTORIES

Satisfactory Controls over Controlled Drugs and Unsatisfactory Accounting Controls over Non-Controlled Drugs

Hospital Pharmacy

In the 1990 fiscal year, the pharmacy department spent approximately $15.4 million on drugs—95 per cent for non-controlled drugs such as antibiotics, valium and aspirin, and 5 per cent for controlled drugs such as morphine and codeine. As of March 31, 1990, the pharmacy department had an inventory of approximately $1.4 million in non-controlled drugs and $0.1 million in controlled drugs.

We found that access to controlled and non-controlled drugs was restricted to authorized employees, and that the pharmacy department's perpetual records for controlled drugs agreed with the stock on hand. However, at the time of our audit, the perpetual records for non-controlled drugs did not agree with the stock on hand. Differences of over 30 per cent were noted in most of the items examined.

Significant variances should be promptly investigated to minimize potential effects on operations. Senior management maintained that they were aware of discrepancies, and were taking corrective action.

Hospital Units

The pharmacy department supplies the various hospital units such as nursing units, operating rooms and the emergency department with all medications for patient use. Each unit is charged for the costs of drugs issued from the pharmacy.

Of the $15.4 million of drugs purchased by the hospital during the 1990 fiscal year, approximately $11.2 million were dispensed by the pharmacy department on a one-day supply and $1.9 million were distributed to maintain a stock of drugs in the various hospital units (ward stock). This stock is generally replenished three times a week. The remaining purchases of $2.3 million were dispensed by the pharmacy to out-patients.

Records of drugs received from the pharmacy department and administered to patients are maintained by the hospital units. **However, these records are not periodically reconciled to the stock of non-controlled drugs on hand in the units.** Accordingly, there is a potential for the loss of non-controlled drugs to go undetected.

2.8 cont'd

Satisfactory Controls over Equipment

At March 31, 1990, the hospital had fixed assets costing $248.7 million. Of this, $144.3 million was for land and buildings, and the remaining $104.4 million was for equipment. Acquisitions of equipment for the 1990 fiscal year were approximately $10.7 million. The hospital classifies equipment purchases over $500 as fixed assets.

Hospital procedures require that an equipment record be created for each asset purchased and that identification numbers be affixed to each asset. As well, equipment records are to be updated when equipment is sold, traded, scrapped, or transferred between units.

An equipment record was maintained for acquisitions, and the total cost shown reconciled with the amount in the financial statements at March 31, 1990. Our tests of this record did not indicate any significant discrepancies. However, some items did not have hospital identification numbers, and the hospital had not conducted periodic inventory counts of equipment for many years. As a result, there was a potential for loss of attractive, moveable equipment, or for recording errors to go undetected.

Physical verifications of easily moveable equipment should be performed periodically. As well, the hospital should arrange to identify equipment which is valued at less than $500, but is particularly portable and attractive.

OTHER MATTER

Merger of the Toronto General Hospital and the Toronto Western Hospital

In October 1986, the Toronto General Hospital and the Toronto Western Hospital merged to form The Toronto Hospital. The former hospitals were established as divisions of the new hospital. Prior to the merger, the total expenditure of the two hospitals in fiscal year 1987 was $317 million and Ministry of Health funding was $254 million. For the 1991 fiscal year, expenditure of the merged hospital was $417 million and Ministry funding was $333 million, an increase in both of approximately 30 per cent.

Since the merger, several services of the former hospitals have been consolidated. For example, in 1990, cardiac, heart transplants, renal, gynaecology and psychiatric services were consolidated at the Toronto General Division, while neuroscience, trauma and musculo-skeletal services were consolidated at the Toronto Western Division. As well, in 1990 the hospital closed 220 beds permanently, reducing the Ministry of Health's approved complement of both divisions from 1,660 beds to 1,440 beds.

According to hospital policy, savings realized from the merger are to be tracked. We requested this information from the hospital, but **senior management declined to provide it, stating that it was not an accounting record, and was therefore beyond the scope of our inspection audit.**

Inspection Audit, Toronto General Division, The Toronto Hospital

2.8 cont'd

Correspondence on file at the Ministry of Health also indicated that the Ministry expected cost savings to result from the sharing of the "expensive" new patient care information system at the Toronto General Division. The Ministry also anticipated that the merger would result in the reduction of costly duplication and the consolidation of clinical expertise. The then Minister of Health indicated in the Legislative Assembly on October 21, 1986 that the merger would free up millions of dollars for use in providing health care.

Ministry officials currently maintain that the merger has led to overall cost efficiencies because of centralized management, administration and support services, and consolidated purchasing power. **However, at the time of our audit, these officials were not aware of any formal attempt to quantify these savings or to determine whether the merger has, in fact, generated any economy.**

On April 24, 1991, subsequent to our field work, senior management of the hospital provided the Ministry of Health with a copy of a report dated May, 1990 which indicated various annual savings from the merger. However, as previously mentioned, the hospital declined to provide us with information on the savings realized from the merger, and accordingly we were unable to verify the accuracy of the savings indicated in the report to the Ministry.

RESPONSES

The Chairman of the Board of The Toronto Hospital and the Deputy Minister of Health responded to our audit report.

ACQUISITIONS

The Chairman of the Board responded: *"We feel that competitive practices are followed for the acquisition of equipment... and other supplies and services. Although the report raises some questions, we feel adequate explanations have been provided. With respect to [your comments regarding the purchase of laundry services], The Toronto Hospital is a member of this not-for-profit corporation without share capital which has provided laundry services to a group of downtown hospitals since 1968. The Toronto Hospital currently accounts for 40% of the volume of this facility, maintains an active role on the Board of Directors, and has a major equity in [the corporation]. The 20-year agreement expired on final repayment of the debentures. [The corporation] is presently finalizing a laundry service agreement for signature by all users. This document will be reviewed with our Finance Committee along with supporting documents to reaffirm the competitiveness of the service.*

"Hospital policies are being updated and will be revised to ensure adequate documentation is retained, and major contracts and significant variances from policy are reported."

INVENTORIES

The Chairman of the Board responded: *"Accounting controls... over non-controlled drugs... were inaccurate at the time of the inspection audit because of*

2.8 cont'd

problems with the computerized system. Physical control over inventories is good, and financial records are adjusted at year end to ensure accurate financial reporting.

"The Toronto Hospital will be implementing an improved computerized inventory system in 1991/92 as part of an ongoing program to upgrade financial reporting systems. These changes will overcome the problems with perpetual records and improve management reporting. The inventory record of fixed assets will be test checked periodically by physical counts."

OTHER MATTER

The Deputy Minister responded: *"Potential savings as a result of the merger were not quantified at the time the merger was approved... These were taken into consideration at the time the Ministry of Health approved a $65 million capital expenditure for redevelopment at the Western site with the Ministry funding [one half] rather than the usual [two thirds]."*

The Chairman of the Board responded: *"The Toronto Hospital Management meets regularly with... senior representatives of the Ministry of Health, and reviews a number of issues including progress of the merger, redevelopment of hospital facilities and other significant matters. We will continue this practice and will review progress of the merger and significant consolidations or changes prior to implementation."*

2.9
Inspection Audit, Toronto East General Hospital, Ministry of Health

Toronto East General and Orthopaedic Hospital Inc. is a 650-bed facility which offers numerous in-patient and out-patient services.

During the 1990 fiscal year, the hospital's expenditures were approximately $94.6 million. Revenues were approximately $98.4 million, consisting of $87.1 million in Ministry of Health operating grants and $11.3 million from other sources.

SUMMARY

Our scope and objectives were similar to those outlined in the previous section on The Toronto Hospital. Our conclusions and findings were as follows:

Acquisitions

Overall, we concluded that the accounting records and related procedures for non-payroll expenditures at Toronto East General Hospital were satisfactory. However, improvements were required in the documentation of acquisition decisions. For example:

- we were unable to determine whether acquisition policies had been followed in 29 of 73 expenditures examined. There was no documentation on file at the time of our audit to indicate either the use of competitive practices or the reasons for waiving competition; and

Inspection Audit, Toronto East General Hospital

2.9 cont'd

- ten of these purchases, each over $25,000, totalled $1.8 million and included one purchase for security services costing approximately $650,000.

Inventories

In the pharmacy department, we found that accurate perpetual methods were maintained for both controlled and non-controlled drugs, and that access to these drugs was restricted to authorized employees. However, there was a potential for loss of non-controlled drugs in hospital units to go undetected because the hospital did not periodically reconcile available records to stock on hand. As well, there were significant differences between the records of medical and surgical supplies and actual stock on hand.

Controls over inventories of equipment were satisfactory.

RESPONSE

The Chairman of the Board of Toronto East General and Orthopaedic Hospital Inc. responded to our audit report.

Acquisitions

"The hospital will establish a policy to retain documentation supporting acquisition decisions. In addition, management will provide details to the Finance Committee of exceptional circumstances where competitive bidding was waived."

Inventories

"[With respect to non-controlled drugs], management will implement a system to document that variances are investigated and the explanations are recorded."

"[With respect to medical and surgical supplies], management will establish a system to document that variances shown on the monthly cost reports are investigated and the explanations recorded."

Comments on Cross-Ministry and Special Audits

2.10
School Board Inspection Audits, Ministry of Education

In 1991 we completed inspection audits at six school boards—the Simcoe County Public and Separate Boards, the City of Windsor Public and Separate Boards, the Peel Public Board and the Dufferin-Peel Separate Board.

Collectively, these boards have approximately 21,000 employees, including 15,500 teachers. They operate 490 schools for over 240,000 students. Their operating expenditures for 1989 totalled $1.4 billion, of which $550 million was funded by the Ministry of Education.

SUMMARY

SCOPE AND OBJECTIVES

Our audit of these boards assessed whether:

- purchases were adequately controlled and complied with board policies and procedures;
- the acquisition and management of student transportation services were adequately controlled; and
- the boards were eligible for certain program-specific grants from the Ministry, and spent the funds according to the terms approved.

CONCLUSIONS AND FINDINGS

PURCHASES

Controls over purchases were satisfactory at four of the six boards. At the remaining two boards, controls were less than satisfactory. We noted:

- **failure to obtain competitive bids in accordance with established policies (all six boards);**
- **continuous reliance on suppliers after a deficient competitive process (five of six boards);**
- **purchases from suppliers who were not the successful bidder for the items purchased (three boards); and**
- **outdated purchasing policies requiring tenders to be sought for relatively small transactions (three boards).**

ACQUISITION OF STUDENT TRANSPORTATION

Overall, controls over the acquisition of student transportation services were less than satisfactory.

- **A competitive process was not used to help ensure the best value for funds spent (all six boards).**

School Board Inspection Audits

2.10 cont'd

- **We noted a variety of deficiencies in contracts entered into with operators (three boards).**

MANAGEMENT OF STUDENT TRANSPORTATION

All but one of the boards audited had satisfactory controls over the management of student transportation. However, we noted opportunities to reduce transportation costs in all boards audited:

- **Sharing transportation services with coterminous boards was rarely considered.**
- **Savings were possible from staggering school hours between elementary and secondary schools (four of six boards).**
- **Routes were planned based primarily on eligible ridership rather than on actual ridership (three boards).**
- **Route planning was done using a manual information base (five of six boards).**
- **Three boards, in our view, had overly generous policies for walking distances.**

PROGRAM-SPECIFIC GRANTS

We were satisfied that, with few exceptions, the boards were eligible for the grants received and that they spent the grants according to the terms approved.

OTHER MATTERS

One board was slow to identify and act to reduce underutilized schools. Although the board had begun to close underutilized schools, more needed to be done.

The Ministry of Education has undertaken certain initiatives to strengthen school board accountability.

COMMENTARY

PURCHASES

For the year ended December 31, 1990, operating expenditures of the six boards audited, excluding payroll and student transportation, amounted to $280 million. Typical expenditures include school, office and maintenance supplies, services and equipment.

Although all boards required some improvement in their competitive process for acquiring goods and services, this deficiency was only significant at two of the six boards audited (Simcoe County Separate and Dufferin-Peel Separate).

2.10 cont'd

Lack of Competitive Bids

Board purchasing policies contain provisions requiring that purchases be competitively obtained through verbal quotations, written quotations or formal public tender, depending on the dollar value involved. Boards also normally require the documentation of reasons in cases where these policies are not followed.

At all boards, we selected a representative sample of purchase transactions in the 1989 and 1990 fiscal years to test for compliance with these policies.

The following are examples of weaknesses noted:

- At Dufferin-Peel Separate during 1990, the plant department hired four contractors at a total cost of $139,000 for various jobs without competitive bids or purchase orders. The jobs represented paving at three schools ($63,000), laying sod on a playing field ($30,000), three fencing installations ($27,000) and installation of carpeting at a school ($19,000).

- At Peel Public, educational supplies and toys totalling approximately $95,000 were purchased from one supplier in 1990 without obtaining quotes or tenders. Purchasing staff indicated that the items were difficult to tender, as they were small and varied. Our search of other suppliers revealed that several offer volume discounts for such items.

- At Simcoe County Separate, plant staff hired a flooring company to refinish three gym floors for approximately $15,000. We were advised that no quotations were obtained because the job was specialized and few companies were qualified to do the work. We noted that there were numerous qualified contractors in the county to do this type of work.

Continuous Reliance on Suppliers

For reasons of expediency and satisfaction with a supplier, boards will sometimes continue to purchase from a supplier for several years without periodically considering alternatives or permitting other suitable suppliers an opportunity to obtain board business.

- At Windsor Public, a blanket purchase order for both paint and paint supplies was issued in January 1988 without obtaining competitive bids. From January 1988 to January 1991, purchases charged to this blanket order, all from the same supplier, totalled approximately $200,000. We were advised that this brand of paint was selected because of its quality and that the Manager of Purchasing and Supply used his discretion to purchase this product. We noted that in Windsor there were at least two other suppliers of this brand of paint.

- At Simcoe County Separate, classroom furniture totalling $286,000 was purchased in 1989 and 1990 without obtaining competitive bids. Management informed us that the Board had dealt with this supplier for many years and was satisfied with the quality of the product. We did note, however, the existence of many other suppliers of classroom furniture.

2.10 cont'd

- At Windsor Separate, certain janitorial supplies were continually bought from the same suppliers. In 1990, about $22,000 of floor stripper was purchased from one supplier, over $12,000 of floor wax was acquired from another supplier, and plumbing supplies totalling $40,000 were purchased from only one supplier.

Purchases from Suppliers Who Were Not the Successful Bidder

This problem is most likely to occur with high volume purchases of low dollar items such as science equipment and school supplies.

- At Dufferin-Peel Separate, nine bids were received in 1990 on a science supplies tender, and the lowest bid was accepted. However, during the year, the Board purchased approximately $123,000 or over 35 per cent of the total purchases of science supplies from a company that was disqualified for not meeting the tender conditions. The Board had recorded this company as "no bid". We estimated that the Board paid $55,000 more than it would have if these items had been acquired from the successful bidder.

- At Peel Public, there was a June 1990 tender for primary and junior science equipment. Various items were included in the tender, including beakers, test tubes, flasks and thermometers. Bids were received from seven companies, and each was awarded certain equipment items.

  For one of these companies, a comparison of prices paid to prices obtained in the tender awarded indicated that the Board had overpaid. Additionally, items were purchased from this supplier even though another supplier was the successful bidder for those specific items.

Tender Limits

In the case of three boards, Simcoe County Public, Windsor Separate and Dufferin-Peel Separate, we felt that consideration should be given to increasing the dollar value of limits for obtaining written quotations and formal public tenders.

The existing limits had not been changed for a number of years, and were low in relation to other boards audited. For example, two of these boards required formal public tenders for purchases exceeding $7,500 and in the case of the other board, the limit was $5,000. These amounts were low when compared to what we considered to be a more realistic level of $25,000 at two of the other boards audited this year and one of the two boards audited last year.

ACQUISITION OF STUDENT TRANSPORTATION

For 1990, expenditures for student transportation at the six boards audited were $63.5 million, of which $50 million was funded by the Ministry of Education.

2.10 cont'd

Boards typically contract with operators for buses, vans and cabs. In some cases, contracts are also entered into with public transit companies.

Lack of Competitive Process

With all six boards, the services of operators were acquired without using a competitive process. Although all boards examined negotiated for these services, few have done a sufficient analysis of the costs involved to provide a meaningful basis for negotiations.

A competitive acquisition process generally results in obtaining the best value for the funds to be spent, as well as allowing suppliers fair access. However, the subject of tendering for transportation services is controversial among boards, and many are not convinced it will result in any significant savings. Boards are also concerned about maintaining safety and service requirements and creating monopoly situations through selection of the lowest bidder.

However, given the large differences in rates among boards even within the same region, we felt a more competitive process would indeed produce savings and better demonstrate fairness to potential operators. Tendering can be a viable alternative provided that service and safety requirements are clearly specified in the request for proposal.

To avoid monopoly situations and maintain flexibility, options to consider would include:

- grouping routes in packages and seeking invitational tenders for each package;
- inviting operators to submit proposals complete with the routes they wish to service, the number of vehicles available, and associated costs; and
- seeking open tenders on all routes but limiting the proportion of routes awarded to any one operator.

Additionally, in four of the six boards audited, rates paid to operators were based primarily on inflation, increases in operator costs and limited comparisons with surrounding boards. Rarely was a detailed cost analysis performed to provide a basis for rate negotiations with operators. Cost analysis should include the capital cost of the buses and related depreciation factors, financing costs, licences, insurance, drivers' wages, maintenance, overhead and a reasonable profit margin.

As a result of the negotiation process, some operators were paid substantially more than other operators for similar services. This situation was noted at both Peel Public and Dufferin-Peel Separate. At the latter board, for example, the highest paid operator was paid $2,400 more per bus for the 1990/91 school year than the second highest operator and $5,000 more per bus than the lowest priced operator, for identical buses. Based on the 90 buses supplied by this operator, the extra cost to the Board ranged from approximately $200,000 to $450,000.

2.10 cont'd

Contracts with Operators

We noted a variety of deficiencies in contracts entered into with operators. The most common deficiencies included:

- fuel cost escalation clauses which were based on gasoline prices although the majority of school buses used diesel fuel (2 boards);
- escalation payments which were made without provision in the operator contracts (1 board);
- lack of provision for the right to terminate or transfer routes to other operators should service not be acceptable (2 boards); and
- failure to involve trustees in the review and approval of transportation contracts (4 boards). Notably, the Simcoe County Public and Separate boards had appointed transportation committees of the Board whose duties included reviewing and approving such contracts.

MANAGEMENT OF STUDENT TRANSPORTATION

Most boards ensured that buses were operated at or near capacity, including the use of multiple routes for buses. All boards paid their operators in accordance with contracts. All but one board had claimed their transportation grants from the Ministry correctly.

We did, however, identify opportunities to reduce transportation costs in virtually every board audited.

Sharing Services with Coterminous Boards

In the three sets of coterminous boards we audited, there was either very limited or no sharing of transportation routes. The greatest potential for sharing exists for routes where buses are underutilized. Combining bus routes for the public and separate boards can result in the elimination of buses or substitution of more suitable bus sizes, resulting in significant cost savings.

The Peel Public and Dufferin-Peel Separate Boards have, in fact, jointly administered transportation services for physically handicapped students for several years. Additionally, these two boards have initiated a joint study to determine the feasibility of consolidating both transportation systems into one, with the view to achieving substantial cost savings.

Staggering of School Hours

In four of the boards audited, all schools (elementary and secondary) started and finished the day at the same time. Consequently, two

2.10 cont'd

different buses would be required even where the secondary and elementary schools were in close proximity.

However, if the secondary school opened and closed one-half hour earlier than the elementary school, only one bus would be required. The one bus could first pick up students for the secondary school, then do a second route to pick up elementary students.

Both Peel Public and Dufferin-Peel Separate have achieved as many as four runs per bus and substantial savings from staggering school hours. Savings are greatest for urban areas where schools are in close proximity to each other. Less densely populated areas could achieve savings by staggering school hours in conjunction with the coterminous board.

Eligible vs. Actual Ridership

Boards generally plan routes based primarily on the number of eligible students living within transportation zones. **As a result, buses were hired to accommodate students whether or not they actually used the transportation services.**

- At Peel Public, we asked bus operators serving five secondary schools to provide the actual number of students boarding their buses on a specified day. We then compared their counts to the number of students who were eligible to use those buses and found that, on average, only about 75 per cent of eligible students were actually riding the buses.

  For the 96 routes serving 5 secondary schools we examined, by using actual instead of eligible riders we felt it would be possible to eliminate 2 buses and downsize a further 38 for annual savings of $160,000.

- At Dufferin-Peel Separate, the transportation department conducted a survey at one secondary school which was located in a temporary location. The survey concluded that approximately 20 per cent of the students eligible for transportation would not be using it. Acting on the survey resulted in total savings exceeding $200,000 for the 1990/91 school year.

- Simcoe County Public had recently begun to study actual student ridership and had determined that significant savings were possible either from downsizing buses or actually eliminating routes.

Route Planning

At the time of our audits, bus routes were designed and managed at five of the six boards using a manual information base.

In the case of Simcoe County Public, the existing information base was inadequate to permit effective route planning, thus contributing to less efficient utilization of buses. Information needed would include the number of students requiring transportation, the location of student residences and pick up points,

2.10 cont'd

the number of students picked up at each location, and the distance and driving time for each route.

Dufferin-Peel Separate, on the other hand, had a computerized route management system which has enabled staff to effectively and efficiently design and manage their bus routes, thus reducing the number of buses needed.

Peel Public acquired a computerized route management system in 1986 at a cost of over $400,000. The implementation of this system, originally planned for the 1987/88 school year, was delayed until the 1991/92 school year. We were advised that this delay was primarily due to an incomplete student information system. The Board estimated there would be a saving of over $1 million in the first year alone from the resulting reduction in buses.

We believe that most boards would benefit from the acquisition of route management software in co-operation with other boards and/or the Ministry.

Walking Distances

School boards, rather than the Ministry, set policies regarding student eligibility for transportation. The primary factors considered when developing these policies are the age of the students and distance from the school.

In our view, three boards had overly generous policies regarding walking distances.

- At Simcoe County Separate, students were eligible for transportation if they lived 1.6 kilometres or more from a school or when safety or health concerns existed. Secondary students received the same service as kindergarten students.

  We felt that this policy was very generous. For example, the coterminous board provided transportation services for its students based on the following distances: junior and senior kindergarten - 0.8 kilometres; grades 1 through 8 - 1.6 kilometres; secondary - 3.2 kilometres.

- At Windsor Separate, the policy was identical to that of Simcoe County Separate.

- At Windsor Public, elementary students up to nine years old were eligible for public transportation if they lived more than 1.6 kilometres from a school or when health or safety concerns existed. Older students, including those attending secondary schools, were eligible if they lived more than 2.0 kilometres from a school. Many boards require secondary students to walk at least 3.2 kilometres to school.

Additionally, two of these boards had inadequate control over exceptions to their policies on walking distances.

- At Simcoe County Separate and Windsor Separate, transportation was provided for a number of students who lived within the established 1.6 kilometre

2.10 cont'd

boundaries. At both boards, we were advised that this had been permitted for many years due to safety concerns.

We felt that more formalized procedures for granting transportation exceptions for safety reasons should be established and adherence to them periodically reviewed and approved.

Other

Use of Public Transit

Both Windsor Boards require most secondary students who are eligible for transportation to use public transit, which is much more cost effective than using contracted vehicles.

Additionally, both Peel Public and Dufferin-Peel Separate were making limited use of public transit, but recognized the potential for substantial additional savings from increasing its use.

We believe significant savings could be achieved if other boards were to investigate the use of public transit in urban areas, for both secondary and senior elementary students. In Windsor alone, for example, using public transit for secondary students rather than buses saves over $1.3 million annually.

Questionable Claim for Transportation Grant

As a result of a public transit strike from October to December 1990, the Dufferin-Peel Separate Board temporarily hired ten additional buses to transport the students who normally used public transit. However, the Board claimed these buses for grants from the Ministry as if they were in service for the entire school year rather than the 45 days they were actually used.

The Ministry's grant formula calculates the annual transportation grants based on the buses in service on October 31. We were advised by the Board that the temporary buses were claimed since they were actually in service on that date. However, the Board also claimed public transit costs for the period before and after the strike. As a result, both public transit and school bus grants were claimed for an overlapping period of 137 days resulting, in our view, in approximately $154,000 in excess grants.

PROGRAM-SPECIFIC GRANTS

Ministry funding to school boards includes numerous program-specific grants. These are to fund special initiatives for which the Ministry sets out objectives, reporting requirements and indicates targets which are to be achieved.

School Board Inspection Audits

2.10 cont'd

Our audits focused on the following five classes of program-specific grants received by the six boards in 1989 and 1990:

	1990 (thousands)	1989 (thousands)
Grant-eligible microcomputer systems (GEMS)	11,321	11,002
Portable classrooms	1,195	2,911
Software classrooms	499	669
Co-operative education/transition to employment	—	104
Learning skills	250	250

With relatively few exceptions, the boards audited were eligible for the grants received and the grants were spent according to the terms approved.

OTHER MATTERS

Underutilized Schools - Windsor Separate

In 1969, several small school boards were amalgamated with the Windsor Separate Board. After consolidation, the new Board was left with many small, inefficient schools.

To compound the problem, the Windsor Separate Board's elementary enrolment has declined by 6 per cent (more than 680 pupils) over the past eight years despite the significant impact of introducing some 1,400 junior kindergarten students. This has resulted in additional surplus schools.

Ministry of Education guidelines require boards to develop a school closure policy. The Board's school closure policy identifies the steps to be taken by the Board from the identification of a school to the disposal of the site. This policy states that a study for school closure will be undertaken whenever certain criteria, such as enrolment, are of concern.

In May of 1990, the Board engaged a consulting firm to assist with an Operational Review and School Retention Strategy Study. The review dealt foremost with the issues of matching the needs for individual school buildings to a declining population for the City of Windsor.

The report concluded that many of the Board's financial problems resulted from too many elementary schools. Underutilized schools contribute to excessive overheads

2.10 cont'd

and a low pupil-teacher ratio. A school retention model was developed to assist the Board in deciding which schools to close.

After applying the model to all schools, the Board named nine schools to be closed by September, 1992. It was estimated that the closing of these nine schools would save approximately $3 million annually.

We felt such a decision should have been made a number of years ago. Board statistics show that nine of the Board's 35 elementary schools had been operating at less than 50 per cent capacity since 1985. A 1989 report prepared by Administration recommended the closure of four schools. However, the Board voted to close only two of them. All four schools studied had enrolments of less than 150 and operated at an average of 33 per cent of capacity. The remaining two were subsequently scheduled to be closed as part of the nine schools named to be closed by the Board. The lack of action by the Board resulted in foregone savings, and contributed to the Board's deficit.

Ministry Initiatives

The Standing Committee on Public Accounts held meetings in February 1991 to review sections of our 1990 Annual Report related to school board inspection audits (Lakehead Public and York Region Separate) and the financial accountability framework for Ministry grants to school boards.

At these meetings, the Ministry outlined a number of the initiatives it has undertaken to strengthen school board accountability:

- Changes to the funding model for student transportation grants to ensure greater economy and efficiency and to make trustees more accountable for transportation decisions taken by local boards. We understand that the changes have been introduced in stages for the 1991 grant submissions and will begin to take effect in 1992.

- Establishment of an education expenditure and financial analysis section to provide comparative analyses of school board expenditures.

- Including in future ministry transportation audits an examination of the board's tendering process and/or the feasibility of tendering for transportation services.

- More closely monitoring how school boards spend program-specific grants provided by the ministry.

- Continuing to actively promote resource sharing between boards.

RESPONSE

At the completion of each of our six inspection audits, a report was sent to the relevant school board. In addition, the results of these six audits were summarized in a letter to the Deputy Minister of Education dated August 27, 1991.

School Board Inspection Audits

2.10 cont'd

The Deputy Minister of Education responded to our letter. In addition, three school boards responded to our audit reports (Dufferin-Peel Separate, Simcoe County Separate, and Windsor Public).

PURCHASES

Ministry: *"The Ministry is pleased that controls over purchasing are generally satisfactory, and will continue to encourage Boards to improve policies and strengthen controls."*

Simcoe County Separate: *"Based on the Provincial Auditor's scope and objectives as stated in the opening remarks, one of the purposes of this inspection audit was to assess whether purchases were adequately controlled and complied with Board policies and procedures. Consistent with the findings of the Board's fiscal auditors, the Provincial Auditor did not find any control weaknesses in the Board's systems... It is based on this that the Board disagrees with the Provincial Auditor and feels its controls over purchases are adequate. We agree with the findings on purchasing policy and procedures.*

"As the Board's purchasing procedures were not instituted when the Provincial Auditor inspected, they discovered they were seeking to audit something that did not exist. Board policy is clearly within the Board's mandate and not that of the Office of the Provincial Auditor."

Lack of Competitive Bids

Simcoe County Separate: *"The Board has adopted a process to address [concerns about competitive purchasing] for the future.*

"Decisions of the purchasing department will be documented and available for public scrutiny."

Continuous Reliance on Suppliers

Simcoe County Separate: *"Implementation of the Board's purchasing procedures will provide fairer access to the competitive bid process for the Board."*

Windsor Public: *"[The paint order to which you refer] is a blanket order for a specified brand of paint and has been purchased from the only distributor in Windsor. Recently other firms have offered this product, and they will be included in future price requests.*

"This brand of paint has been a long standing standard for the Board. Our Plant Department cites the ease of application, hiding quality, good coverage, longevity and washability as the major criteria for selection of paint products. All of these qualities are cost saving factors in application, maintenance and repainting cycles."

2.10 cont'd

ACQUISITION OF STUDENT TRANSPORTATION

Ministry: *"We have noted the weaknesses in the acquisition of transportation services. However, both the Boards and the Ministry have over the past two years taken proactive steps to address these weaknesses, e.g., the development of the Student Transportation Management System (STMS). This system is a transportation management and costing computer program to effectively assess costs, and will be available to ECNO participants. Presently three boards have adopted phase two of the system; more are expected to follow with completion of phases three through five.*

"The Ministry's concern over the usage of negotiation versus tendering was communicated to all Directors of Education on February 22, 1991. Future Ministry transportation audits will examine this issue further."

Windsor Public: *"The Board believes a complete review should be made of all transportation routes and a determination made which routes should continue in light of the newly announced restrictive government funding for student transportation in Windsor. Once this is completed, a decision will be made whether or not to submit transportation services to the competitive process on a multi-year basis."*

Lack of Competitive Process

Dufferin-Peel Separate: *"The Dufferin-Peel process [of acquiring student transportation services] has resulted in a low cost, safe, politically acceptable system. The Provincial Auditor's approach, in this instance, is inappropriate, when service levels and historical precedent dictate to a degree whether the system succeeds or fails.*

"The Board accepts the general comment that a competitive process generally results in obtaining the best value for the funds to be spent. However, in the case of transportation, the concept must consider service levels, safety and the various problems in dealing with a low bidder. Several school boards and associations have discussed these concerns with the Provincial Auditor."

"Provincial surveys, board comparisons and ongoing relationship with the industry provides the 'costing' knowledge. Surveys indicate that our overall contract package is not out of line and that our cost per student is among the lowest in the province. However, the Board accepts the point that the process of negotiation and the rationale for decisions were not well documented and, therefore, not publicly justified."

"By adjusting contract sizes based on operator performance, the Board has created a competitive atmosphere. Any attempt to build in greater efficiencies in this area should be done with a sensitivity to the maintenance of good service levels.

"The comparison of our various rates draws the false conclusion that 'the extra cost to the Board ranged from approximately $200,000 to $450,000'. This analysis merely compared our lowest price to our highest price assuming that all prices should be the same. This approach ignores legitimate reasons and our Board's specific situation. Our rates vary for various historical reasons including a driver shortage two to four years ago. One operator let the Board down and the other incurred costs to rectify our situation. The contract rates reflect these and other realities."

School Board Inspection Audits

2.10 cont'd

Simcoe County Separate: *"The [Office of the] Provincial Auditor's comments regarding 'a competitive acquisition process generally' resulting in best value for the Board's money hints at their agreement that a competitive process doesn't always equate with tendering. The issue of tendering bus transportation is a very complex issue which needs a great deal of study before a 'blanket' tendering policy can be implemented.*

- *Tendering may result in a low-cost competitive process but its potential sacrifices need to be explored.*
- *The Board fears that safety and reliability may suffer.*
- *As well, the Board's span of control would likely erode as a monopoly would develop as a result of many of the Board's smaller operators not winning routes.*
- *Additionally, the large capital outlays required to enter this business could prohibit new operators from gaining fair access to business.*
- *Depending on the frequency of tendering, the Board could not find itself bound by a contract which would not be consistent with needs and policies."*

Windsor Public: *"The Purchasing Policy at the Board does not apply to the acquisition of transportation.*

"The Board employs five different bus operators, vans, taxi cabs and trains in an attempt to provide the most economical mode of transportation. Each particular case requires an individual decision to employ the most economical mode of transportation for students given a particular set of circumstances. A competitive acquisition process may produce a lower cost in the short run. However, we know of no conclusive study that indicates that competitive pricing (tendering) results in better price and service in the long run. We would like to point out that the majority of school boards in the province negotiate their transportation rates.

"The rates negotiated compare favourably with the rates obtained by other school boards in Essex County."

MANAGEMENT OF STUDENT TRANSPORTATION

Ministry: *"We are pleased that, with one exception, the Boards audited had satisfactory controls over the management of student transportation. Changes to the funding model for student transportation are being undertaken by the Ministry. Nonetheless, we welcome the Provincial Auditor's suggestions for improving the administration of transportation services and resources."*

2.10 cont'd

Sharing Services with Coterminous Boards

Dufferin-Peel Separate: *"The Board continues to consider and implement shared services with its coterminous boards where the integrity of each system is maintained and cost savings for both boards can be demonstrated."*

Simcoe County Separate: *"To improve efficiencies, the Board is exploring... joint ventures in transportation with the Simcoe County Board of Education and the Muskoka Board of Education. These joint ventures would develop computerized systems to improve efficiencies between and across respective Boards."*

Staggering of School Hours

Simcoe County Separate: *"Recent actions adopted by the Board and recommended to the Provincial Auditor as potential courses of action to issues they have identified have been implemented. The Board has in most of its communities implemented better utilization of buses contracted for service through institution of staggered school hours and route design changes allowing a bus time to do at least double runs, thereby reducing the need for one bus each time this change is successfully implemented."*

Windsor Public: *"Consideration will be given to implementing staggered elementary school hours in co-operation with the coterminous separate board. It is felt, however, that this initiative will require more time and will be investigated for the 1992 school year."*

Walking Distances

Simcoe County Separate: *"We agree and had already directed Administration to bring forth some recommendations surrounding this."*

Windsor Public: *"The Board agrees that certain transportation provisions have been generous. The Board has approved an increase in the eligibility for secondary school public transit passes from 2.0 to 3.2 km."*

Other

Questionable Claim for Transportation Grant

Dufferin-Peel Separate: *"These grants were applied for in accordance with the Ministry's Grant Application Instructions. There is no deviation from the regulation."*

Staffing Levels in School Boards

2.10 cont'd

PROGRAM-SPECIFIC GRANTS

Ministry: *"The Ministry is... pleased that, with few exceptions, the boards were eligible for grants received, and that these were spent in accordance with approved terms. All grants that have been inappropriately paid will be recovered."*

OTHER MATTERS

Underutilized Schools - Windsor Separate

Ministry: *"The Windsor RCSS Board has already submitted a written plan to reduce the deficit. The Plan was based on the recommendations of the Operational Review and School Retention Strategy Study.*

"The Ministry requires all Boards to establish a school closure policy. However, the Education Act places the decision-making responsibility on the school boards."

2.11
Trends in Staffing Levels in Ontario School Boards, Ministry of Education

STATISTICS

As an adjunct to our school board inspection audits, we obtained overall statistics from the Ministry on staffing and enrolment levels as of September 30, 1985 and 1990.

Staffing was summarized for the following three categories, based on full-time equivalent personnel:

Supervisory officers	-	primarily superintendents, assistant superintendents and the directors of education.
Professional staff	-	including principals, vice-principals, teachers and other support professionals such as consultants, counsellors and social workers.
Other staff	-	including teacher aids, technicians, administrative, custodial and other support services.

2.11 cont'd

The most relevant statistics appear in the following tables:

	1985	1990	Growth %
Schools	4,477	4,737	5.8
Pupils	1,760,000	1,936,000	10.0
Supervisory officers	846	930	9.9
Professional staff	104,000	125,300	20.5
Other staff	36,600	48,700	33.1

	1985	1990
Schools per supervisory officer	5.3	5.1
Professional staff per supervisory officer	123	135
Pupils per professional staff	16.9	15.5

OBSERVATIONS

Supervisory Officers

The proportion of supervisory officers to both schools and professional staff remained relatively constant during the five-year period. Additionally, both enrolment and the number of supervisory officers have grown on average by about 10 per cent.

Professional Staff

This is the largest and most costly staffing category in school boards so changes in professional staff have a significant impact on education costs. Overall, the professional staff levels in school boards have increased 20 per cent in five years, almost twice the rate of enrolment growth. Corresponding pupil-teacher ratios have declined.

Policies such as mandatory junior kindergarten, and grades 1 and 2 class size reductions have all contributed to the growth in professional staff and reduced pupil-teacher ratios. No conclusive evidence is as yet available to indicate whether these lower ratios have improved the quality of education.

Staffing Levels in School Boards

2.11 cont'd

Other Staff

Surprisingly, this staffing category has shown the most dramatic growth over the five-year period. Its growth rate of over 30 per cent is triple the rate of enrolment growth and 50 per cent higher than the growth in professional staff.

RESPONSE

The Deputy Minister of Education responded to our audit report.

"In the very short turn-around time allowed for our response, we cannot make any specific comment. Your observations will, of course, be reviewed by the Ministry and taken into consideration in any future policy/financial initiatives."

CHAPTER

3

COMMENTS ON MINISTRY AND CROWN AGENCY AUDITS

Ontario

CHAPTER 3
COMMENTS ON MINISTRY AND CROWN AGENCY AUDITS

3.1 Introduction

The comments contained in this segment of the Annual Report pertain to audit observations and recommendations resulting from Ministry and Crown agency audits.

The comments on ministries were selected from the cyclical "value for money" and compliance audits of ministries. The audits on which the comments are based were completed since our last Report and are listed in Exhibit 2.

The annual attest audits of agencies of the Crown and Crown-controlled corporations are primarily designed to express an opinion on whether the financial statements are presented fairly. These audits are listed in Exhibits 3 and 4, respectively.

In addition to the attest audits, some agencies are selected by the Office for a broader scope audit. Typically, one of the more significant operational areas of the agency is reviewed for evidence of good management practices relating to economy, efficiency and/or procedures to measure effectiveness.

3.2 Livestock and Dairy Inspection, Ministry of Agriculture and Food

The Ministry of Agriculture and Food spent $31 million in the 1990 fiscal year for the Quality and Standards Activity to enhance the quality and safety of food produced in Ontario.

SUMMARY

SCOPE AND OBJECTIVE

Our objective was to assess the adequacy of the livestock and dairy inspection process in assuring food quality and safety.

Our audit was conducted both at the Head Office of the Ministry and through a number of visits to district offices for each of the Inspection Branches. We visited several of the Province's laboratories, including the Pesticide and Veterinary Laboratories in Guelph. Our review also included visits to a dairy, a dairy farm, and poultry and meat slaughterhouses. We held supplementary discussions with several other federal and provincial organizations including the Ministry of Health, Health and Welfare Canada, and Agriculture Canada.

CONCLUSIONS AND FINDINGS

LIVESTOCK

The inspection process was less than satisfactory in assuring food quality and safety. Little or no enforcement action had been taken against slaughterhouses whose facilities or equipment did not meet the requirements of the *Meat Inspection Act*. Thirty per cent of the inspection reports which we sampled rated slaughterhouses as significantly deficient.

3.2 cont'd

The Ministry has, however, initiated inspection of certain slaughterhouses where inspection is not mandatory. This has been done to reduce the risk of uninspected meat being sold to the public.

We also found that meat inspectors in some locations were off-duty or underutilized by as much as 25 per cent of the total available time due to scheduling inefficiencies. Off-duty time was estimated to have cost at least $700,000 per year.

DAIRY

The inspection process was satisfactory in assuring food quality and safety. The Central Milk Testing Laboratory has improved the accuracy of its testing for milk quality. In addition, improved reporting to inspectors has allowed them to identify problems requiring prompt follow-up.

However, inspection coverage would have been improved by better use of staff in risk areas. Farm inspectors often made multiple visits to non-problem dairy farms, while overall 30 per cent of the province's 9,000 dairy farms had not been inspected.

BACKGROUND

The Quality and Standards Activity provides programs that ensure continued consumer confidence in the safety and quality of food products processed and consumed in Ontario through regular inspection of dairy, livestock and fruit and vegetable products. The program also provides laboratory analysis of food products for pesticide residues and other contaminants, and of animals for disease.

The Livestock Inspection Branch administers and enforces meat inspection programs to ensure the quality and safety of animal products. There are over 260 slaughterhouses in the province, inspected by approximately 130 meat inspectors. Expenditures in the 1990 fiscal year were approximately $9 million.

The Dairy Inspection Branch provides inspections of dairy farms, bulk-tank truck operators, and dairy plants. These inspections are supported by tests performed at the Central Milk Testing Laboratory to help identify problems with milk quality. There are approximately 40 inspectors. Their caseload includes approximately 190 dairy plants and approximately 9,000 dairy farms. Expenditures in the 1990 fiscal year were approximately $7 million.

COMMENTARY

LIVESTOCK

An inspector must be present in each provincially licensed slaughterhouse during operating hours. Their responsibilities include inspection of all slaughtered poultry and livestock to ensure that meat is fit for human consumption.

3.2 cont'd

Inadequate Enforcement of Slaughterhouse Regulations

Inspectors monitor adherence by slaughterhouses to the requirements of the Act in areas such as sanitation of equipment and working areas, condition of equipment, methods of meat handling, adequacy of temperatures in coolers, and methods of transporting products. The Act gives the Branch Director the right to refuse to renew a slaughterhouse licence if it is believed that the premises, facilities or equipment do not meet the standards outlined in the Regulations. The Director also has the authority to suspend a licence if it is believed that the health of the public could be adversely affected by the sale of meat.

We reviewed a representative sample of inspection reports and found that:

- **Thirty per cent of the sampled reports classified slaughterhouses as "critically deficient" because of such things as extremely unsanitary conditions or a need for extensive repair. We found disciplinary action against these plants to be limited.** Regulations permit the Director to call a hearing to specify an action plan regarding non-compliant operators. However, in the last four years only one such disciplinary hearing has been called by the Ministry.

- **There were no standard follow-up procedures or formal time limits set for correcting problems.** The same problems had often been identified for many years at the same slaughterhouse. None of these plants have had their licences revoked. A similar observation was noted in our 1985 report to the Ministry.

Inspection Initiatives on Exempt Slaughterhouses

Exempt slaughterhouses are not licensed and currently do not require Ministry inspection. These plants cannot sell their meat on the retail market. The meat can only be consumed by the animals' owners.

Ministry inspection staff have had concerns about the quality of meat at exempt plants because of the possibilities that organs or whole carcasses of animals could be affected by tuberculosis, or that carcasses could contain trichina, tapeworm, or decomposed meat.

Inspectors were also concerned that the risk of meat sales to the public by exempt operators exists, and that only a highly publicized incident involving uninspected meat would likely change the situation. **These concerns were also shared by the Investigation Unit of the Ministry,** and were evident in our review of Ministry files. For example, a meat store on a small Ontario farm offered uninspected poultry for sale which had been purchased from an exempt slaughterhouse.

Another situation being monitored by Ministry staff involves an operator suspected of raising, slaughtering and selling poultry to restaurants without inspection.

The Ministry intends to seek legislative amendments to remove inspection exemptions for all slaughterhouses. Also, when staffing permits, **the Ministry intends to**

3.2 cont'd

begin regular routine monitoring of exempt plants on a random basis. An inventory of exempt plants done in 1986 identified approximately 100 such operators. An attempt was being made to establish a more up-to-date inventory.

Scheduling and Use of Personnel

The Ministry has the authority under the Act to set slaughtering schedules for all plants. In practice, each plant has regularly scheduled kill days which are negotiated with the Ministry. Inspectors are paid for a 40-hour week regardless of whether their schedule is full. When there is downtime on the schedule, the inspectors are required to be on call. We sampled approximately one third of the meat inspectors' timesheets for 1990:

- **On average, over 10 per cent of inspector time was charged as off-duty on-call time, varying in offices to as much as 25 per cent of available time. The cost of off-duty time was estimated to be at least $700,000 per year.**

- When inspectors are used to capacity during certain days of the week, added per diem help may be hired. Per diem costs in 1990 exceeded $500,000. On Fridays, inspectors are generally underutilized. Inspectors in one district were only utilized 40 per cent of total time on Fridays during 1990.

We felt that an overall improvement in scheduling would result in fewer instances of downtime and less use of per diem staff. In this regard, the Ministry should improve its monitoring of utilization and cost statistics, and be more assertive in exercising its rights under the Act to set slaughterhouse hours of operation.

DAIRY

Farm inspectors monitor the handling procedures and the quality of raw milk and cream at the farm and between the farm and the dairy. Dairy plant inspectors inspect dairy premises and equipment for sanitation and observe processing procedures to ensure equipment is functioning properly.

Improved Milk Testing and Analysis

The Central Milk Testing Laboratory is a modern, technologically advanced facility which supports the work of dairy inspection staff. Our 1985 report identified start-up problems in the facility's first year which were associated with the equipment's ability to measure results accurately. This generated many complaints from dairy farmers.

Our recent audit revealed that the Ministry has satisfactorily corrected these start-up problems and has improved the accuracy of the laboratory's testing. This has enhanced the laboratory's credibility such that it has been able to generate approximately $300,000 in revenue annually by providing other laboratories—both within and outside the province—with milk measurement tests.

3.2 cont'd

Dairy inspection staff found the Laboratory invaluable in providing information on the quality and safety of milk from each of the province's producers. The Laboratory's reporting system highlights health problems that require more immediate follow-up. These reports are received by inspectors at their district offices. Follow-up matters may include excessive bacteria levels or mastitis, which is a common disease among dairy cattle. Early detection is important because mastitis affects the quality of the milk and the health of the herd.

Need for Better Inspection Focus and Coverage

Farm inspectors inspect bulk-tank trucks and driver procedures. The driver is the first quality control point in the system, ensuring that the milk is grade quality before allowing it into the bulk tanker. The driver also takes samples of each farm's milk for tests done at the Central Milk Testing Laboratory.

Farms are inspected for the sanitation of the stable and the milking equipment and for the cleanliness and health of the dairy herd. Potential problems include antibiotics in the milk, high bacteria levels, and added water.

Proper sampling procedures, such as adequate tank agitation, avoiding contact with the product, and adequate sample depth, are critical to producing reliable test results.

Our review of 4,200 inspection reports revealed no major points of concern for those farms that had been inspected. However, we learned that:

- The Branch traditionally attempted to inspect each dairy farm annually. **Under this approach, approximately 30 per cent of the Provinces 9,000 dairy farms were not inspected.** We acknowledge that on a risk-based approach not all farms may have to be covered each year. **At the same time, 60 per cent of farms sampled for which no problems had been identified had been inspected more than once in the last year.** Some of these farms had been visited up to five times.

- Only 50 per cent of the 230 bulk-tank operators in the North Eastern Region had been inspected in 1990 for adherence to the proper pick-up and handling routine. In the Central West Region, only 15 per cent of the 340 operators had been inspected.

The farm inspection section has recently implemented some changes to expedite the inspection process. In some areas inspectors are riding with bulk-tank drivers from time to time to inspect the tank truck, assess drivers' pick-up procedures and generally observe farm premises. This process allows an inspector to cover many farms in one day on a cost-effective basis and assess whether a full follow-up inspection is warranted.

3.2 cont'd
RESPONSE

The Deputy Minister responded to our audit report.

LIVESTOCK

Inadequate Enforcement of Slaughterhouse Regulations

"The emphasis of the Regulations and inspection policies has been directed toward the health of the livestock and the safety and quality of the meat product. In recent years as zoonotic disease (i.e., tuberculosis, brucellosis) has come under control, there has been a change of focus to environmental food-borne pathogens. Regulations were amended in 1989 and are now undergoing a comprehensive rewrite to reflect the actual risk areas.

"An annual plant audit program was instituted in 1988 in response to the 1985 Provincial Auditor's report. The new audit form directs attention toward higher risk areas. In recent months, detailed follow-up plans have been developed for all plants not in compliance. A pilot project is now under way to develop written sanitation protocols to be monitored by inspectors in all plants. Inspectors are instructed to suspend operations in cases of severe sanitation deficiencies. These measures are a more effective strategy in achieving improvements in the meat packing industry than conducting hearings to withdraw plant licences. Withdrawal of inspection services and the holding of hearings will continue to be utilized as appropriate to protect human health."

Inspection Initiatives on Exempt Slaughterhouses

"As a result of... monitoring and consulting with industry, the Branch is scheduling for 1992 a legislative review of the exemptions under the Meat Inspection Act. The proposal is that all meat sold in Ontario would require inspection. There is strong support for this initiative from the regulated industry as well as other food safety agencies."

Scheduling and Use of Personnel

"Regional market shifts, seasonal fluctuations and distances between plants are complexities inherent in staffing. For example, during the period covered by this audit, a deep recession resulted in significant reductions in slaughter operations [having an impact on] staff utilization in some parts of the province. Efforts are under way to more effectively deploy staff resources... [For example,] staff are being utilized to monitor processing operations on non-slaughter days... Inspectors are being utilized in other Branch programs [such as] sales barns [and] deadstock disposal.

"[The Ministry] is seen to assist small business endeavours by providing mandatory inspection services to these plants on the specific days requested. Failure to do so could place some operators at a competitive disadvantage. Competition between small rural abattoirs is keen and slaughter days are directly related to market and community sale barn days of operation... Reduction in off-duty time can constitute a measure of performance of Regional Supervisory staff in exercising legislative power to assign

Community and Social Services
Surrey Place Centre

3.2 cont'd

slaughter times. While rescheduling would substantially improve staff utilization statistics, it would not assist the industry."

DAIRY

Need for Better Inspection Focus and Coverage

"If composition or quality problems are not identified, it is probable that 30 per cent of dairy farms in Ontario would not be, nor should be, inspected annually. Inspection coverage of dairy farms in Ontario has been, and continues to be, increasingly based on identifying milk quality and component problems through testing results generated by the Central Milk Testing Laboratory.

"The issue [of repetitive visits] is being addressed by work plans recently developed by staff on an area office basis. The work plan details will provide management and staff with sufficient information to monitor and measure work performance, and achieve the priorities identified in the Branch strategic plan.

"Inspection of bulk-tank [drivers] occurs, on a priority basis, as problems are identified by producers and/or by the computerized monitoring system. The Branch has adopted truck rides by staff as a cost-effective method of increasing inspection coverage for both bulk-tank [drivers] and dairy farms."

3.3
Surrey Place Centre, Ministry of Community and Social Services

Surrey Place Centre is a non-profit corporation funded primarily by the Ministry of Community and Social Services. It offers a broad range of non-residential services to approximately 1,000 developmentally handicapped children, adults and their families in the Greater Toronto Area. The Centre also conducts research and teaching.

During the 1991 fiscal year, the Centre received $8.3 million in grants from the Ministry and employed 150 staff.

SUMMARY

SCOPE AND OBJECTIVES

We reviewed six of the Centre's eleven multi-disciplinary programs with expenditures totalling $5.6 million.

Our audit objectives were:

- to assess whether the Ministry adequately monitored the Centre's expenditures of funds; and
- to determine whether the Centre monitored the appropriateness of care and services.

Comments on Ministry and Crown Agency Audits

3.3 cont'd

CONCLUSIONS AND FINDINGS

FUNDING

The Ministry had not adequately monitored the Centre's expenditure of funds.

- **In the programs we reviewed, we estimated that the Centre could have saved over $750,000 annually without adversely affecting client service.**
- **The Ministry had not recovered over $1.2 million of surplus and interest income retained by the Centre.**

CARE AND SERVICE

The Centre monitored the appropriateness of care and services provided to its clients. For example:

- **the Centre has made concerted efforts to limit the use of intrusive treatment procedures; and**
- **surveys conducted by the Centre indicated that, overall, clients were satisfied with its Behaviour Management Program.**

COMMENTARY

FUNDING

Significant Cost Savings Identified

For the 1991 fiscal year, salary and benefit costs totalled $7.0 million, or approximately 85 per cent of the Centre's total operating costs of $8.3 million. We assessed the appropriateness of costs for each of the six programs we reviewed, and concluded that the costs for three of the programs—administration and support services, access, and medical services—were too high. **We estimated that the Centre could save over $750,000 annually without adversely affecting client service.**

Administration and Support Services

Program costs for the 1991 fiscal year totalled $1.9 million or over 20 per cent of the Centre's total expenditures. We estimate that the Centre could save over $400,000 per year in salary and benefit costs, as follows:

Community and Social Services
Surrey Place Centre

3.3 cont'd

Houskeeping: Costs of approximately $200,000 were twice as high as those for comparable buildings	$100,000
Accounting and Human Resources: Number of staff was almost double that of a similar agency with a larger budget	$210,000
Office supplies and services: Three full-time staff were employed to handle receiving, photocopying and mail delivery. One person is sufficient at other agencies	$60,000
Catering: We questioned the need for a full-time employee to serve snacks during staff breaks and meetings	$30,000
Total projected savings	$400,000

Additionally, we noted that approximately 80 other non-profit agencies with annual expenditures totalling $100 million serve the disabled and developmentally handicapped in the Toronto area. We compared the Centre's costs with 15 of these agencies with expenditures of $65 million. We found that the Centre's administrative and support services costs of 20 percent of total expenditures were similar to two large agencies with expenditures exceeding $32 million. In contrast, the thirteen other agencies spent only ten per cent of their funds on such services.

The Ministry's area office acknowledged that administration and support services costs for the large agencies were high, and that it planned to review the appropriateness of such costs.

Access

Clients are admitted to the Centre through its Access Program. Program staff collect client information, determine the clients' needs and refer them to appropriate services within the Centre. During the 1991 fiscal year, the program employed six staff at a cost of $260,000.

We noted that program staff were collecting unnecessary information and duplicating the work of other departments. For example, many of their duties such as interviewing clients, family and referring professionals and preparing progress notes were also performed by the Case Management Department. We were advised that the Centre had already developed plans to discontinue this program. The revised admitting function will require only two staff, resulting in savings of over $150,000 per year.

Medical Services

The Medical Services Program provides medical and psychiatric assessments and pharmaceutical services to clients of the Centre. It employs eight staff consisting of four physicians, three full time and one part time, two support employees and two part time pharmacists. The program also employs other physicians on a fee-for-service basis as required. For the 1991 fiscal year, program expenditures totalled $670,000.

3.3 cont'd

In examining medical services for 1990, we found that on average, each staff physician had conducted fewer than two assessments per week. Each assessment takes approximately two hours to complete. In one case, a full-time physician had conducted no assessments during a seven-week period. We estimated that $180,000 could be saved by reducing staff levels.

We also noted that clients make limited use of pharmaceutical services provided at the Centre. The cost of dispensing each prescription is $30, or three times higher than that at outside pharmacies. The Centre could save $20,000 by closing the pharmacy.

Interest Income and Surpluses Not Recovered

The Centre is operated under the terms of an agreement with the Ministry. It receives its operating grants quarterly, in advance, from the Ministry.

When actual expenditures are less than grants received, Ministry policy generally requires recovery of the surplus. However, under the agreement, the Centre is allowed to retain any surplus not exceeding five per cent of the approved budget, provided there is Ministry approval of plans for disposing of the surplus. Additionally, Ministry policy requires recovery of interest income generated from funds provided by the Ministry.

Our audit revealed that the Centre had not complied with Ministry policy. **Over a three-year period ending March 31, 1990, it retained:**

- **$850,000 in surpluses** without Ministry approval of plans for disposing of the surpluses; and
- **$350,000 in interest income** generated from Ministry funds.

Additionally, of the $1.2 million in total retained by the Centre, the Centre had spent $450,000 on capital purchases without the required Ministry approval. The remaining $750,000 is being held by the Centre in cash and short-term investment.

In last year's audit, we reported that the Ministry had not recovered surpluses and interest income totalling $3.4 million from two agencies for the developmentally handicapped. In the current year, the Ministry's Toronto area office also informed us of another agency that has retained a surplus of approximately $850,000.

These findings suggest that the Ministry may not have recovered substantial surpluses and interest income being held by agencies across the province.

CARE AND SERVICE

Intrusive Procedures Adequately Controlled

In limited circumstances, the Centre approves the use of intrusive procedures in the treatment of developmentally-handicapped persons with behavioural problems.

Community and Social Services
Surrey Place Centre

3.3 cont'd

Intrusive procedures are defined as actions that result in restriction of freedom of movement; reduction of visual, auditory or physical stimulation; or pain or discomfort.

The use of intrusive treatment procedures is a controversial issue among professionals in the behavioural field. The *Child and Family Services Act* contains provisions relating to intrusive procedures. However, these provisions have yet to be proclaimed into law.

In the past two years, **the Centre has made concerted efforts to ensure that intrusive procedures are used only after alternative, non-intrusive measures had been considered.** We examined a representative sample of treatment plans over the last two years. All treatment plans proposing the use of intrusive procedures were approved by the Centre's Extraordinary Measures Multi-Disciplinary Review Committee, an independent committee made up of senior staff members. As of December 1990, we noted that only two out of 164 active cases involved the use of intrusive treatment procedures.

Client Satisfaction Measured

The Centre's Behaviour Management Program employs approximately 30 staff, the majority of whom are behaviour therapists. The program provides training to families and other service providers in the treatment of developmentally-handicapped persons who are exhibiting behavioural difficulties. The treatment is designed to reinforce positive behaviours and eliminate negative behaviours.

We noted that the Centre had recently conducted surveys to measure the level of client satisfaction with the program. For example, the Family Behaviour Program staff contacted all 53 families receiving services from the Centre. Of these, 42 families responded by completing a survey questionnaire asking, for example, whether a client's behaviour had improved since receiving training and whether adequate training had been provided by therapists. **Overall, the families indicated that they were more than satisfied with this program.**

RESPONSE

The Deputy Minister of Community and Social Services responded to our audit report.

FUNDING

Significant Cost Savings Identified

"The Ministry is in the process of analyzing each program/service area in consultation with Surrey Place Centre, and will use this supporting information from the Provincial Auditor as part of the review with the Agency.

"[The Ministry] is involved in a process which began in 1989/90, which is aimed at making the entire budget and financial process more effective, timely, and emphasizing accountability, reporting, and monitoring.

3.3 cont'd

"Achievements to date and for implementation by April 1, 1992 include:

- *more timely approvals;*
- *more timely completion of agreements;*
- *budget and legal agreements aggregations;*
- *clear process on APERs and audited statements;*
- *clear process for surplus reconciliation;*
- *quarterly financial reporting by agencies; and*
- *clearer position on areas such as central administration, purchased services, personal needs."*

"[The Access Program] no longer exists as a result of a planned reorganization done in co-ordination with the Ministry. This re-evaluation process began in September 1989 with the objective of assessing existing services in comparison to existing and future needs in the agency and community."

"The Ministry has been assessing [medical services] and other service areas against costs and the appropriateness of [Ministry] funding. This has been under way since 1989 as part of the joint consultation approach with the agency relative to the latter's strategic planning process and organization revision plan. Clarification is required on the fact that the current pharmacy is staffed by two part-time pharmacists who work a couple of hours per week. The total cost of the program is $35,000."

Interest Income and Surpluses Not Recovered

"[The Ministry] accepts the audit statement, and... will look at adherence to Ministry policies."

"Although [the Ministry] is not aware of the two agencies [for the developmentally handicapped with surplus and interest income totalling $3.4 million], the Ministry will look at adherence to policy."

"We are aware of [the agency with a surplus of approximately $850,000], and it would be the Ministry's expectation that retention of a surplus has approval of an Area Office."

Environment
Waste Management

3.4
Waste Management Monitoring and Funding, Waste Management Branch, Ministry of the Environment

The Waste Management Branch is responsible for regulating and monitoring the management of waste in Ontario. In the 1991 fiscal year the Branch had expenditures of $65.3 million.

SUMMARY

SCOPE AND OBJECTIVES

Our objectives were to assess the adequacy of the:

- efforts to monitor the generation and disposal of hazardous and liquid industrial wastes; and
- administration of grant programs.

Our audit included interviews with representatives from municipalities, environmental advocates and other interested groups including the Ministry's Municipal Industrial Strategy for Abatement (MISA) Committee.

CONCLUSIONS AND FINDINGS

HAZARDOUS AND LIQUID INDUSTRIAL WASTE

Efforts to monitor the generation and disposal of wastes were found to be less than satisfactory.

- **The Ministry did not ensure that all wastes shipped were received at the intended disposal facilities.**
- **The Ministry had not followed up discrepancies noted in over 70 per cent of the exception reports sampled.**
- **Some generators were discharging waste into sewers.**
- **Generators of waste were not all registered as required by legislation.**

GRANTS

Grant programs were being administered in a satisfactory manner.

OTHER MATTER

- **Only 200 of the 700 closed landfill sites requiring priority inspections had been inspected to determine whether they posed a hazard to the surrounding area.**

3.4 cont'd

BACKGROUND

The Waste Management Branch is responsible for a variety of functions including:

- maintaining a system to monitor the generation, transportation, and disposal of hazardous and liquid industrial wastes; and
- evaluating technologies, and providing technical and financial assistance to municipalities, institutions and businesses to divert wastes from landfill sites by reducing, reusing, and recycling waste material.

The Branch's activities are mainly influenced by Regulation 309 of the *Environmental Protection Act* (the Act) which contains standards for the storage, transportation and destruction of wastes.

COMMENTARY

HAZARDOUS AND LIQUID INDUSTRIAL WASTE

Effective in 1986 the Act requires generators of hazardous and liquid industrial wastes, such as the solvents benzene and xylene, to register with the Ministry. They must declare the type and quantity of waste they are generating or expect to generate.

All generators of waste have the option of treating and disposing of the wastes on site or shipping them to a licensed disposal facility. Those wishing to handle the wastes on site should have their treatment facilities licensed by the Province. Those not having an on-site facility are required to ship wastes to another licensed facility through a licensed carrier, and are required to manifest or list the contents of the shipment. There were approximately 1,200 licensed carriers and 1,100 licensed receivers. Approximately 2,000 of the 22,000 generators registered with the Ministry treat their wastes on site, while the balance ship their wastes to disposal facilities.

The manifest system is co-ordinated and managed by the Waste Management Branch. The Act requires the generators, carriers and receivers of wastes to inform the Ministry of the movement of wastes, using a specially designed form. The form has three parts containing information on each of the three parties (generator, carrier and receiver). Copies of the completed forms are sent to the Ministry by the generator and the receiver to ensure that what was shipped was received.

Poor Control over Movement of Waste

No Reconciliation of Waste Shipped and Received

The Ministry did not routinely match the copies of the manifest forms forwarded by the generator and the receiver. Consequently, the Ministry could not ensure that wastes shipped were actually received by the designated facility. A special computer-generated report prepared at our request indicated that in 1990 there were over 4,000 unmatched copies of manifest forms, a 76 per cent increase over 1989. The unmatched copies represented approximately 1 per cent of manifest forms received.

We acknowledged that increases in unmatched copies did not necessarily mean that wastes were being diverted from the intended disposal facilities. However, without

3.4 cont'd

appropriate identification and follow-up procedures, the deterrent aspect of the process suffers and the risk of improper waste dumping increases.

We were advised by the Waste Management Branch that a staff member had been assigned to deal with this issue. Also, a new computer system with customized software was being developed by the Branch.

Lack of Follow-up on Exception Reports

Data on the completed manifest forms is entered into a computer. The computer produces an exception report which notes the discrepancies occurring when generators are not registered, carriers and receivers are not licensed, or information on the form is incomplete. On average 3,000 discrepancies occur each month.

The regional offices which work with the Waste Management Branch in following up discrepancies felt that the exception reports were untimely, reaching their offices several weeks after month end. Consequently, in most instances the violation would have taken place well over a month before. As the time limit for issuing provincial offences tickets is only 30 days, many violations could not be ticketed.

We reviewed procedures for the handling and follow-up of exception reports using a sample from four regions between May and December 1990. **Our review revealed that over 70 per cent of exception reports were not being followed up by the Ministry to account for discrepancies.**

Reasons given for the inadequate follow-up were lack of staff and the significant increase in the number of generators. Generators had risen from 3,000 in 1986 to over 12,000 in the Central Region alone, and there had been no increase in staff. Therefore, the Ministry informally followed up those discrepancies which they believed involved serious violations and repeat offences.

Unlicensed Shippers

Individuals in the industry expressed concern that unlicensed shippers were in some cases obtaining blank manifest forms issued to licensed carriers. **While the Ministry kept records on the serial numbers of the forms issued to carriers, the forms were not checked to ensure they were used by the proper licensed carriers.** We noted some cases where manifest forms were used by a carrier other than the one originally designated.

Possession of such forms could enable unlicensed shippers to carry hazardous waste and avoid being detected by law enforcement agencies. Since the unlicensed shippers might not have the necessary training and experience to handle hazardous waste, the risk of accidental spills could increase.

Better Monitoring Required

In 1989 the Ministry surveyed over 600 registered generators that had not manifested in 1988. In 1989 Ministry staff visited a number of sites, and conducted telephone surveys of other generators.

3.4 cont'd

For over 80 per cent of the generators surveyed the reasons for not manifesting included registration for contingency purposes only or for one-time generation, or storage versus shipping of waste. **However, approximately 17 per cent of those surveyed were believed to be either discharging into sewers or for various reasons possibly not required to register.**

Since 1989 no similar survey has been conducted by the Ministry. A computer report was generated at our request and indicated that approximately 25 to 30 per cent of registered waste generators had not manifested since registration.

Waste Generators Not Registered

Ensuring that all generators of wastes have registered with the Ministry is difficult, and can only be accomplished by having Ministry staff actively look for factories, workshops or other establishments likely to generate wastes. However, **Ministry staff stated they had made no concerted effort to look for generators who had not registered**. The staff indicated that, given the level of public awareness and their general vigilance, most generators would have registered.

However, in 1990 the Ministry sponsored a study by an external consultant to review the management of wastes by the dry cleaning industry. **The study indicated that approximately 400 or 30 per cent of the dry cleaners in the province were not registered.**

GRANTS

One of the functions of the Waste Management Branch is to evaluate technologies and provide financial assistance to municipalities and private industries for various waste management programs. The Branch provides grants to municipalities on a cost-sharing basis. In the 1991 fiscal year, approximately $48 million was provided to municipalities with one program, the Municipal Recycling Support (Blue Box) Program, accounting for $23 million. Industrial grants for the 1991 fiscal year amounted to $6 million.

The major municipal program, the Municipal Recycling Support Program, provides operating cost grants (for up to five years), capital cost grants, cost sharing for household "blue boxes", promotion and advertising, education, pilot demonstrations, and feasibility studies. The operating cost grants progressively decline from a high of 50 per cent in the first year to 10 per cent in the fifth year.

Adequate Controls over Municipal Grants

We reviewed 40 grant payments from various municipal grant programs, namely the Municipal Recycling Support Program ($23 million), the Municipal Waste Reduction/Reuse and Recovery Program ($6 million), and the Financial Assistance and Waste Management Improvement Programs ($16 million). We examined Ministry records pertaining to grant approvals and payment authorizations and found that

3.4 cont'd

grants were being administered in a satisfactory manner. More specifically:

- **grants were paid in accordance with Ministry policies and agreements with individual municipalities;**
- **adequate controls were in place to ensure that all payments were calculated accurately and appropriately authorized; and**
- the Branch had arranged for the Municipal Audit Bureau to conduct periodic audits of the municipalities receiving grants.

OTHER MATTER

Lack of Closed Landfill Site Inspections

A team of hydrogeologists in the Waste Management Branch and Regional Office staff are jointly responsible for investigating landfill sites that was closed prior to 1971. Prior to 1971, the construction and operation of landfill sites were not regulated. Consequently, features such as clay linings along the periphery of the sites were generally not constructed. Therefore, if any hazardous substances had been deposited in the landfill sites, there is a strong possibility of leachate contamination in the surrounding area.

The Ministry had identified approximately 2,400 landfill sites across the province. The sites had been categorized in order of the potential hazards they posed to the surrounding area. The two major criteria used for categorizing were: the type of wastes, such as toxic chemicals, that could have been deposited in the sites; and the nearness of the sites to population centres, such as subdivisions or shopping centres. **Over 700 sites had been classified as most in need of priority reviews.**

At the time of our audit, only 200 of the 700 priority sites had been inspected to determine the need for further detailed investigations of sub-soil conditions and leachate migration through the underground water table. In addition, only ten sites had been subject to detailed investigations with the help of external consultants. The results of such investigations had generally been positive in that no serious environmental problems were noted, although in one case a methane gas monitoring system had been recommended to the municipality.

The Ministry had no formal plan to inspect and investigate any more sites. However, the Ministry believed more sites would be investigated and was continuing its efforts to identify sites that might require detailed investigations.

3.4 cont'd
RESPONSE

The response from the Deputy Minister included the following comments.

HAZARDOUS AND LIQUID INDUSTRIAL WASTE

Poor Control over Movement of Waste

No Reconciliation of Waste Shipped and Received

"Regulation 309 imposes the responsibility of proper waste management on the generators, who are obliged to use licensed carriers and receivers for the transportation and disposal of their waste. The Regulation also requires waste carriers to keep a copy of the Certificate of Approval (C of A) that authorizes the transportation of waste in their vehicles. The generator could ascertain if the carrier is licensed for transporting a particular waste class by asking to see the copy of the C of A or verifying the status of the carrier with the Ministry's regional/district offices.

"The 4,000 unmatched copies of manifest forms account for only approximately 1% of the total number of manifests received. As acknowledged in the report, these do not necessarily mean that wastes are diverted from proper disposal. A branch staff member has recently been placed on special assignment to deal with this issue."

Lack of Follow-up on Exception Reports

"The original purpose of the exception report was to help improve the quality of the generator, carrier and receiver database; and in particular to assist regional staff in identifying those companies that appear to be repeatedly problematic and to institute corrective measures.

"Exception reports are now generated on a bi-weekly basis and are distributed to the regions for follow-up as soon as they are produced. Exception incidences now average 2,000 per month.

"The Ministry is aware of the deficiencies raised by the auditor. A new computer system referred to by the auditor will incorporate features to assist in categorizing exceptions for priority follow-up."

Unlicensed Shippers

"The manifest is a national form and is available to all other provinces. It is conceivable that unlicensed shippers could obtain blank manifests from various sources. Ministry staff are currently investigating the viability of incorporating special features into the proposed new computer system to facilitate the detection of this potential practice. Staff are also examining options to enter the vehicle/trailer plate registration number on the manifest into the computer system to facilitate the detection of unlicensed shippers."

Environment
Waste Management

3.4 cont'd

Better Monitoring Required

"Reasons for companies not manifesting include wastes being placed in storage, process change (recycle or reuse), one-time generation, and over-estimation of waste quantities.

"Discharge into sewers is currently regulated by the respective municipalities. The Ministry, through the Municipal Industrial Strategy for Abatement (MISA) program, is developing a Regulation which will require municipalities to implement a sewer-use program to control discharges from industries into sanitary sewers."

Waste Generators Not Registered

"Waste generators such as nursing homes, dentists' and doctors' offices, retail motor vehicle service stations, and generators of small quantities of agricultural and processed organic wastes, are exempt from the generator registration process. However, the exemption from registration does not relieve the generators of their responsibility to properly manage their wastes.

"The Ministry is endeavouring to complete the registration of non-exempt waste generators through contacts with various trade associations and the individual companies. The Ministry is currently receiving on average 130 generator registration reports per week, of which 45% are new applications."

OTHER MATTER

Lack of Closed Landfill Site Inspections

"Since 1985/86, systematic in-house examinations of closed landfill sites have taken place. The site reviews are prioritized for further investigations jointly with the regional offices.

"In addition to the 200 on-site inspections conducted, a further 173 closed sites were inspected by Ministry personnel and have been given a no problem classification. This classification designates a site which has no foreseeable hazards to human welfare or the environment. The Ministry has also performed another 77 site inspections of closed landfill sites located along the Don River Watershed (36), the Humber River Watershed (19), the the Thames River Watershed within the London, Ontario, area (22)."

Editorial Note: At the time of audit we were advised by the Ministry that the additional 250 sites mentioned were subjected to in-house examination as opposed to physical on-site inspection.

"The Ministry has developed a 'Proposed Plan of Action for a Program of Closed Waste Disposal Site Investigations' with four main objectives:

3.4 cont'd

1. *Review the information relating to the above 700 sites from the Waste Disposal Site Inventory and prepare a list of sites for each region by their classification.*

2. *Review the list from Item 1 with the Regional staff.*

3. *From the review of Item 2 prioritize sites in need of further study and complete this work over the next three years.*

4. *Conduct detailed hydrogeological investigations at those sites identified under Item 3 (estimated at 8 to 10 sites per year)."*

3.5
Deposit Institutions Division, Ministry of Financial Institutions

The Deposit Institutions Division of the Ministry of Financial Institutions is responsible for the regulation of loan and trust corporations, credit unions, co-operative corporations and mortgage brokers. The Division's expenditures for the 1991 fiscal year totalled approximately $7 million.

SUMMARY

SCOPE AND OBJECTIVE

Our audit objective was to assess the adequacy of the Ministry's monitoring of credit unions and mortgage brokers for compliance with legislation.

CONCLUSIONS AND FINDINGS

The Ministry's monitoring to ensure compliance with legislation was:

- **satisfactory for credit unions. However, problems persist in resolving industry deficits which currently amount to approximately $100 million, and in controlling imprudent lending activities; and**

- **less than satisfactory for mortgage brokers. Changes to current legislation are urgently needed as the mortgage broking industry has grown in size and sophistication since 1975, the last time any major changes were made to legislation.**

3.5 cont'd
COMMENTARY

CREDIT UNIONS

There are over 650 credit unions in Ontario with approximately $11 billion in assets. The credit union industry is monitored by the Ministry in conjunction with the Ontario Share and Deposit Insurance Corporation (OSDIC), and the three credit union leagues: Credit Union Central of Ontario; La Federation des caisses populaires de l'Ontario Inc.; and L'Alliance des caisses populaires de l'Ontario Ltee.

The primary function of the credit union leagues is to act as the central banker and provide ancillary services to league members.

OSDIC was established to insure credit union members against loss of part or all of their shares and deposits up to a maximum of $60,000. It collects premiums from credit unions to meet its requirements for insurance funding and administrative costs. OSDIC also acts as the liquidator in dissolving unsuccessful credit unions.

The Ministry spends approximately $2 million annually and employs 30 staff to carry out its responsibilities under the *Credit Unions and Caisses Populaires Act.*

Improvements Noted

Overall, the industry is now healthier and more stable than at the time of our last audit in 1986. As at December 31, 1990 the industry had a net surplus of approximately $350 million compared to $90 million in 1986.

We noted a number of improvements. For example:

- The Ministry's role in monitoring and regulating credit unions has now been clearly defined and is accepted throughout the industry.
- The Ministry's examination process is effective in identifying contraventions of the Act and detecting fraud.
- Examination of file documentation and review by management are now satisfactory.
- The Ministry is promoting compliance with the statutory filing requirements by imposing appropriate penalties.
- There are fewer delays in credit unions submitting annual returns and financial statements.

Unresolved Issues

Industry Deficits

In 1986, OSDIC had a surplus of just under $1 million and there were 100 credit unions with an accumulated deficit of $79.4 million. Since then, some credit unions have recovered, while others have been sold, dissolved or are carrying on business

3.5 cont'd

under the direction of OSDIC. As at December 31, 1990 **OSDIC and approximately 30 active credit unions had accumulated deficits of $90 million and $10 million respectively.**

In May 1987, the Province approved a loan guarantee of $75 million for OSDIC. This was increased to $95 million in March 1990. OSDIC has used $75 million of the guarantee to obtain financing to fund part of its accumulated deficit.

In May 1990, the Ministry issued a proposal to resolve the deficit issue. The proposal, called the "family proposal," is premised on the establishment of "families" of credit unions as a basis for mutual help in dealing with problem situations and minimizing and providing funding for future deficits. It also called for the immediate funding of deficits by the credit union industry and for the release of the Government from all related guarantees. In return for the release, the Government is committed to providing subsidies of approximately $20 million over four years to OSDIC.

It was expected that, by June 30, 1990, the "family proposal" would have been accepted by the industry. However, due to a lack of consensus among industry participants, the acceptance of the proposal is in doubt. One major obstacle is the opposition from unaffiliated credit unions to either form their own "family" or join an existing one.

Lending Activities

In the last three years, the Ministry has investigated approximately 20 troubled credit unions. Nine of these had either been dissolved or were being operated under the direction of OSDIC. Over $20 million in losses had accrued to OSDIC in respect of these credit unions.

We reviewed the investigation files and noted that **the Ministry had identified imprudent lending practices as one of the major factors affecting troubled credit unions**. These practices included loans to related parties, commercial loans and speculative lending.

Related Party Loans

In three cases, related party loans were a contributing factor in the failure of the credit unions. For example in the case of one credit union:

- loans to the general and loans managers were in excess of the credit union's by-law limit of $25,000;

- a mortgage loan of over $40,000 was advanced to the President. This loan was made without proper approvals, and was $2,000 in excess of the value of the property.

Ministry and industry officials agree that the related party rules have to be clarified and specific penalty provisions included in the legislation. The Ministry has drafted proposals for strengthening related party rules for discussion with industry officials.

3.5 cont'd

Commercial Loans

In eight cases, commercial lending in excess of authorized amounts had contributed to the financial problems of the credit unions. For example:

- one credit union's by-laws limited loans to any one person for commercial or business purposes to $75,000. Fourteen loans exceeded this amount, ranging from $78,000 to over $700,000;

- another credit union's commercial loans to corporate and partnership members totalled approximately $7 million, over twice the amount authorized by its by-laws.

Under the Act, persons responsible for approving loans not authorized by the Act, regulations or the credit union's by-laws, may be held liable for any losses incurred on the loans. However, no prosecutions have been attempted by the Ministry under the Act.

Speculative Lending

In two cases the Ministry raised concerns about speculative loans, considered by the credit unions as legitimate investments:

- One credit union, with $16 million in assets, engaged in lending by way of "bridge loans", being mortgage loans on properties purchased for resale. The credit union regarded these loans, totalling $4.5 million, as "investments" and therefore not subject to the statutory restrictions on mortgage lending. The Ministry found that many of these loans were in arrears. The credit union subsequently failed at a cost to OSDIC of approximately $4 million.

- Another credit union, with $350 million in assets, has been lending money by way of mortgages on commercial real estate to non-members. This credit union also characterizes these loans as "investments". These "investments" amount to $75 million or over 30 per cent of the credit union's loan portfolio. The Ministry is concerned about the credit union's investment practices and has obtained a legal opinion. The issue has yet to be resolved.

In December 1988, the Ministry completed a "white paper" entitled "A Policy Framework for the Revision of the Credit Union and Caisses Populaires Legislation and Administration". One of the issues covered related to prudent lending and investment. However, this paper was never finalized for release to the industry for consultation, nor tabled in the Legislature.

We were advised that the legislation is currently under review.

MORTGAGE BROKERS

Most buyers of commercial and residential real estate apply directly to financial institutions for mortgages. Others, however, apply through mortgage brokers, who

3.5 cont'd

are registered under the *Mortgage Brokers Act* to arrange financing through private investors or lending institutions.

Currently, there are approximately 1,000 registered mortgage brokers in Ontario compared to only 500 in 1987. In 1990, the brokers arranged an estimated $10 billion in mortgage financing.

The Ministry is responsible for the regulation of the Act which provides for registration, the handling of public complaints, inspection, and investigation of brokers who do not comply with the Act.

The Ministry spends approximately $500,000 annually, and employs eight staff, to carry out its responsibilities under the Act.

Ineffective Monitoring of Mortgage Brokers' Activities

The Ontario Mortgage Brokers Association has expressed a desire to become self-regulating. However, because mortgage brokers are not required to become members of the Association, the industry relies on the Ministry to ensure that brokers conduct their business with honesty and integrity. The Ministry carries out its responsibilities by performing desk reviews of audited financial statements, field examinations, and formal investigations of complaints and violations under the Act.

During the 1991 fiscal year, the Ministry performed 550 desk reviews of audited financial statements, 230 field examinations and 120 investigations. More investigations were undertaken as a result of outside complaints than the Ministry's own field examinations.

There is heightened public concern over the activities of mortgage brokers and widespread publicity because several brokers are currently in receivership or under investigation by the Ministry. Investors who have suffered losses have looked to the government for recovery.

Given the Ministry's responsibilities, **we question the effectiveness of the Ministry's monitoring procedures.** For example:

- The activities of one broker, registered in October 1987, were investigated by the Ministry several times in 1988 and 1989 for misleading advertising.

  In September 1989, the Ministry reviewed the broker's involvement in arranging a $36 million first mortgage on a shopping centre development appraised at $83 million. The Ministry concluded that losses to investors were unlikely.

  In early January 1990, the Ministry discovered that the broker was preparing to engage in a sales campaign for the developer of the shopping centre for additional mortgage financing of $90 million. The value of the development had apparently now been appraised at $170 million. The Ministry believed this was a misrepresentation of the true value of the project. It therefore considered initiating legal action against the mortgage broker and the developer.

3.5 cont'd

However, on January 19, 1990 the developer, who had several other projects under construction, was placed into receivership. Potential losses to investors are estimated to be as much as $100 million. The court-appointed receivers are conducting an investigation. The broker was involved with the developer in several projects. Consequently, the investigation may include a review of the broker's records to assess the representations which were made to investors.

- The January 1988 audited financial statements of another mortgage broker showed a $4.6 million bank overdraft. A September 1988 Ministry inspection report noted that the broker had a very sophisticated, highly computerized and well controlled operation. A concurrent examination of an associated company noted that it, too, was an excellent company.

  The January 1989 audited financial statements revealed that the broker had incurred net losses of $1.1 million. An inspection conducted in April 1989 by the Ministry indicated only one minor infraction on the mortgage files examined. However, 25 per cent of the broker's mortgage portfolio was in default. Also, a subsidiary's default rate was over 40 per cent.

  In July 1989, the broker was forced into receivership and eventually into bankruptcy. Potential client losses were estimated at $15 million.

The Ministry is taking steps to ensure that future examinations are more focused, and that greater attention is paid to situations which offer the greatest risk to the public.

Responsibilities Need Clarification

No major changes have been made to the *Mortgage Brokers Act* since 1975. The Act was originally designed to protect borrowers through proper disclosure. Lenders were not seen to be at risk because their funds were invested in mortgages with real estate as collateral.

However, the mortgage broking industry has grown in size and sophistication. One major change in the industry has been "syndicated mortgages" where a broker attracts several lenders to finance major development projects. Funds raised could be in excess of the fair market value of the development. Consequently, the real estate collateral would not be sufficient to fully compensate lenders if the developer failed.

Under the Act there is no provision for syndicators to issue a prospectus outlining the details of investment to lenders. Consequently, lenders are not afforded the same protection as investors under the *Securities Act.*

The Ministry may be exposed to potential legal action as a result of perceived failure to adequately regulate brokers registered under the *Mortgage Brokers Act.* In the example of the broker's bankruptcy cited earlier, the Ministry paid $1.5 million to defray some of the costs of the trustee of the bankrupt mortgage broker. In exchange, investors agreed not to proceed with law suits alleging that the Ministry was negligent in carrying out its regulatory function. There is some evidence to suggest that the investors would have sued the Ministry, although the trustee had noted that there were no grounds for a lawsuit against the Ministry.

Comments on Ministry and Crown Agency Audits

3.5 cont'd

Two submissions from the Ontario Mortgage Brokers Association, one in 1981 and one in 1982, as well as a 1987 consultants' report, recommended changes to the *Mortgage Brokers Act.* In 1988, a new Act was drafted but never finalized.

To restore confidence in the industry and satisfy public expectations, changes to the current Act are urgently needed.

RESPONSE

The Deputy Minister of Financial Institutions responded to our audit report.

CREDIT UNIONS

"The deficits referred to in the Audit Report are a result of losses that were incurred in the early 1980s. Deposit insurance rates payable by all credit unions and caisses populaires have been established, whereby the entire deficit is scheduled to be repaid within six years. The industry has gained tremendous strength over the last three to four years, and has become a major force in Ontario's financial services sector with very few deficits incurred during that period."

MORTGAGE BROKERS

"We are now in the process of reviewing the provisions of the Mortgage Brokers Act and its regulations, in light of changed nature of mortgage broking activities. It is the Ministry's expectation that the issues raised by the Provincial Auditor will be dealt with in this process.

"In light of the significant difficulties encountered recently in the mortgage brokers sector, the Division has reallocated resources to more effectively monitor the sector through assignment of staff at the Loan and Trust Branch and Credit Union and Caisses Populaires Branch to assist in mortgage broker reviews at peak periods; and, establishing a Forensic Review Unit which can quickly conduct an in-depth analysis of problem situations, so that regulatory steps, if warranted, can be taken through the Courts and in other forums to halt activities prejudicial to the public.

"The Audit Report indicates that: 'The Ministry may be exposed to potential legal action as a result of perceived failure to adequately regulate brokers registered under the Mortgage Brokers Act.' We are not aware of any legal basis for such legal action, and would be grateful to receive and review any legal opinions on this topic which are available from the Provincial Auditor."

Health
Hospital Operations

3.6
Institutional Health Program, Ministry of Health

The Hospitals and Related Facilities Activity of the Ministry of Health's Institutional Health Program is responsible for the operational and capital funding of public hospitals and related facilities. For the 1991 fiscal year, expenditures for this Activity totalled $7.1 billion.

SUMMARY

SCOPE AND OBJECTIVES

Our audit was conducted at the Community Hospitals Branch and Teaching and Specialty Hospitals Branch at the Ministry of Health and focused on the Branches' monitoring of the transfer payment of $6.4 billion of operating grants to 221 public hospitals. This transfer payment represented approximately 90 per cent of the Activity's expenditures.

Our audit objectives were to:

- determine the status of the Ministry of Health's framework for hospitals to account for their management of operating funds; and
- assess the adequacy of the Branches' monitoring of hospital operations.

CONCLUSIONS AND FINDINGS

ACCOUNTABILITY FRAMEWORK

While the Ministry had prepared an accountability framework, many of the aspects of this framework cannot be implemented without changes to the *Public Hospitals Act*, which is currently being reviewed.

OPERATION OF BRANCHES

We concluded that the Branches were operating in a less than satisfactory manner:

- **Bed closures at hospitals were not approved or adequately monitored by the Ministry.**
- **Minimal time was spent monitoring 168 hospitals which received $4.5 billion in Ministry funding.**
- **Accreditation reports, aimed at ensuring that systems are in place to manage all hospital aspects, were not reviewed by the Ministry.**
- **Hospital surpluses of $30 million were not reviewed for possible recoveries.**
- **Additional funding of $45 million was forwarded to hospitals without assessing the financial resources in their hospital foundations.**

3.6 cont'd

- **Inter-related activities of many hospitals and their foundations were not monitored.**

We also found that further improvements were required in the follow-up of complaints received from the public about hospitals.

BACKGROUND

The *Public Hospitals Act* and Regulations govern the operation of the 221 public hospitals in Ontario. The funding of these hospitals is governed under the *Health Insurance Act* and Regulations. The Ministry provides operational funding to hospitals in accordance with the Business Oriented New Development (BOND) plan, and transitional funding.

Under BOND, hospitals are permitted to retain any surplus on operations, but must absorb their deficits. BOND funding consists of a base allocation (adjusted for inflation), growth (increased utilization of services), life support (specific services defined by the Ministry), and approved new and expanded programs.

Under transitional funding, the growth portion of the BOND funding is calculated based on a hospital's clinical case load. Transitional funding also includes an equity fund (established to address and correct the imbalances and inequities in funding levels among hospitals) and an incentive fund (established to provide up to 100 per cent funding to hospitals for projects which promote the effective management of hospital resources).

Hospitals receive approximately 85 per cent of their revenue from the Ministry of Health. Other sources of revenue include public donations, parking fees, cafeteria sales and interest income.

The responsibilities of the Branches' 65 employees include monitoring operational funding to teaching and specialty hospitals, and community non-teaching hospitals, respectively. The Teaching and Specialty Hospitals Branch is divided into three teams responsible for approximately seven hospitals each, and the Community Hospitals Branch is divided into six teams responsible for approximately 33 hospitals each. Each team consists of two project co-ordinators, one financial co-ordinator and administrative staff reporting to a hospital co-ordinator. The teams' operational responsibilities include identifying hospital funding requirements, investigating financial problems and recommending corrective action.

COMMENTARY

ACCOUNTABILITY FRAMEWORK

Management Board of Cabinet issued a Directive in May 1988 requiring Ministries to establish an accountability framework for transfer payment recipients. This process includes setting expectations (deciding on the objectives and results that the recipient is to achieve with the transfer payment), contracting (entering into an agreement with the recipient), reporting (timely reporting on the achievement of objectives and results by the recipient), and taking corrective action (taking necessary action to ensure achievement of objectives and results).

3.6 cont'd

According to the Directive, expenditure of public funds should be managed prudently to meet the planned objectives and results of effective program delivery.

Accountability Framework in Process of Being Implemented

The Ministry had prepared an accountability framework for the operation of public hospitals which addresses some of the requirements of the transfer payment accountability Directive. **Many aspects of the accountability framework depend on revisions to the *Public Hospitals Act*.** For example, one possible revision is the establishment of formal lines of accountability between hospital Boards and the Ministry.

A Committee which includes representatives from the hospital community is currently reviewing the Act to advise the Minister on changes needed to provide the appropriate legislative framework for the cost effective co-ordination and delivery of hospital health care services. It is anticipated that this Committee will report its recommendations in the fall of 1991.

Our review of the accountability framework revealed that:

- hospitals are not aware of the Directive, nor are they aware of many of its expectations. For example, one expectation is that hospitals be held accountable for the economic, efficient and effective expenditure of public funds;
- the Ministry has not entered into an agreement with the hospitals because of possible changes to the *Public Hospitals Act*; and
- many of the reporting requirements are the same ones that have been in place for the past several years (e.g. operating budgets, annual reports). However, there are minimal requirements for reporting whether funds spent by hospitals have been managed wisely.

OPERATION OF BRANCHES

Monitoring of Hospital Operations Less Than Satisfactory

The Community Hospitals Branch objectives include working with public non-teaching hospitals to manage all ongoing operational activities. The Teaching Hospitals Branch objectives include liaison with teaching hospitals to monitor expenditures.

We noted that the Branches do not maintain procedure manuals to assist and provide direction to staff in the conduct of their responsibilities. As a result we interviewed 11 co-ordinators from many Branch teams to understand what they did on a daily basis. The co-ordinators informed us that:

- 20 to 50 per cent of their time was spent reviewing hospital operations, with the remaining time spent on capital projects and other matters;

3.6 cont'd

- the frequency of visits to individual hospitals ranged from 0 to 12 times per year. Visits were made in connection with specific issues and generally were not documented; and

- their monitoring work was not formally reviewed on a regular basis by senior branch management. However, issues were verbally communicated on a regular basis and monthly Branch meetings were held.

Monitoring of Bed Closures Requires Improvement

We noted that, between the 1988 and 1990 fiscal years, 46 public hospitals, or approximately 20 per cent of Ontario's public hospitals, closed approximately 1,200 beds. We were informed by senior Ministry management that many hospitals closed beds commencing in the 1989 fiscal year after the Ministry encouraged hospitals to balance their operating budgets.

Since the 1985 fiscal year, the Ministry has had a policy which states that no bed closures which relate directly to patient care can be made without prior Ministry approval. We selected 15 hospitals that had closed 770 beds during the 1990 fiscal year and noted that for 12 hospitals there was **no evidence of Ministry approval prior to the beds being closed and no evidence that the Branch teams had monitored these bed closures.** Such monitoring is necessary to ensure that the care needs of a community are maintained.

We noted that commencing in the 1991 fiscal year the Ministry advised hospitals that no alteration would be allowed in the base service levels of certain specialized programs such as emergency and critical care.

Minimal Time Spent Monitoring Many Hospitals' Reports

Hospitals are required to submit annual operating budgets, quarterly operating statements, and audited year-end operating results to the Ministry before a specific deadline. The Ministry has a policy which recognizes the importance of these operating reports and indicates that the Ministry will not increase the cash flow to a hospital until its budget has been submitted.

Our examination of 140 operating reports between the 1989 and 1991 fiscal years, revealed no evidence that 65 per cent of the reports had been reviewed by the Branch teams. We were informed that the co-ordinators concentrated their time on hospitals which were forecasting or experiencing a deficit. Based on our review of operating reports and discussion with Branch teams, **the Ministry evidently spent minimal time monitoring 168 hospitals, receiving $4.5 billion in Ministry funding in 1990**, which did not experience a deficit.

We were informed by senior management that the Branches have recently developed many techniques to monitor hospital operations. For example, the equity funding formula compares the average case costs between hospitals in a given peer group. Equity funding totalling $25 million in the 1990 fiscal year and $40 million in the 1991 fiscal year is provided to hospitals which have an average case cost below their peer group. A Committee is currently working on an approach to directly compare one hospital's operating costs against another hospital, while controlling for the clinical variation of hospital cases.

3.6 cont'd

Accreditation Report Recommendations Not Reviewed

The Canadian Council on Health Facilities Accreditation (CCHFA) is a national body comprised of health care professionals authorized to conduct an accreditation program of health facilities, including hospitals, through an inspection survey. This inspection survey is voluntarily requested by hospitals in an effort to improve the quality of patient care. The contents of the survey report, including recommendations, may be disseminated solely at the discretion of the hospital.

The survey consists of a review to ensure that systems are in place for the management of all hospital aspects including the provision of care for patients.

Each year the CCHFA issues a list of accredited health care facilities including hospitals. Accreditation status ranges from one to three years, with three years being the highest level achieved in this survey. Hospitals are refused accreditation status if the hospital's survey results are unsatisfactory.

In our 1988 report, we noted that 211 public hospitals in Ontario were accredited. During our current audit, we reviewed the January 1, 1991 listing of accredited health care facilities and noted that 215 of the 218 eligible public hospitals were now accredited.

We selected a sample of ten accredited hospitals, covering six Branch teams, and found that **the Ministry had obtained the accreditation report for only one of these hospitals**. At our request, the Ministry asked for and received the accreditation reports for the remaining nine hospitals. We reviewed five of these accreditation reports noting that several issues were identified and recommendations were made. Based on our discussions with the co-ordinators, we determined that **they were often not aware whether the hospital had addressed these issues or recommendations**. For example, at the time of our audit co-ordinators were not aware that in one hospital the CCHFA had noted that the system of signing out narcotic drugs was open to abuse. In another hospital the CCHFA noted the need for accurate, timely and comprehensive financial reports, statistical reports, quality measures and productivity measures.

Surpluses Not Reviewed

One of the major impacts of the BOND funding philosophy was that hospitals would be allowed to retain any surplus on operations but would have to absorb any operating deficit. During the last three years, the Ministry provided 113 hospitals with additional funding totalling $127 million, of which over $50 million was one-time funding. The majority of the additional funding went to hospitals experiencing or projecting an operating deficit. **However, we noted 70 hospitals that had received an additional $51 million in Ministry funding and had year-end surpluses of $30 million. We saw no evidence that the Ministry had reviewed these surpluses for possible recoveries.**

Additional Funding Provided without Assessment of the Resources and Activities of Hospital Foundations

Many hospitals have incorporated a hospital foundation as a separate legal entity to carry out charitable activities for the benefit of the hospital. Donations received by a

3.6 cont'd

foundation are either restricted by the donor for specific hospital uses or unrestricted. Unrestricted donations are available for any hospital use, however they are often designated as restricted for specific hospital uses, including capital projects, by the foundation's Board of Directors.

In our 1988 audit report, we noted that hospitals received additional Ministry funding and had either unrestricted funds in their foundations or had previously transferred operating funds to their foundations. Accordingly, we recommended that transfers from hospital operations to foundations be monitored by the Ministry to ensure that the hospitals' operating results were not substantially affected. Further, in order to determine a hospital's total financial resources, we recommended that the Ministry obtain and review all hospital foundation financial statements.

Resources of Foundations

In 1989 the Ministry requested hospitals to submit their foundations' financial statements, but most hospitals did not comply. The Ministry did not follow up on this request and we noted no further Ministry attempt to obtain all of the foundations' financial statements. Furthermore, the Ministry could not provide us with a list of hospitals which had foundations. **Accordingly, the Ministry was not in a position to determine a hospital's total unrestricted financial resources before providing additional funding.**

We identified 143 foundations and requested that the Ministry obtain their financial statements for the past three fiscal years, on our behalf. We received financial statements from 102 foundations; seven refused to submit financial statements; ten stated they had no financial statements because they were inactive or recently incorporated; and 24 acknowledged our request but had not submitted financial statements before the completion of our audit.

Our review of the 102 foundation financial statements indicated that these foundations had total financial resources of approximately $459 million. These financial resources were comprised of: $74 million restricted by the donors for specific uses; $245 million restricted by the foundations' Boards of Directors for specific uses; and $140 million in unrestricted funds.

We also noted that 39 hospitals with over $76 million of unrestricted funds in their foundations received $45 million in additional Ministry funding over the past three years.

Activities of Foundations

In response to our 1988 audit report, the Ministry indicated that the funds provided to, and held by, hospital foundations are typically designated for capital purposes, often for specifically named capital purposes. The Ministry, therefore, considered it inappropriate to assume that these funds should be used to finance operating costs. Furthermore, the Ontario Hospital Association informed us that the foundations' financial resources are only for capital acquisitions. However, our review of the 102 foundation financial statements revealed that some hospitals transferred unrestricted donations to hospital operations.

3.6 cont'd

Our review and tests of the financial statements of hospitals and foundations indicated many inter-related activities which, as far as we could determine, were not considered by the Ministry when providing additional funding. For example:

- Four hospitals that received additional funding over the past three years had transferred funds from operations to their foundations in or during the two years prior to the year they received additional funding. For example, one hospital transferred $4 million from operations to its foundation in the 1988 fiscal year, and in the next fiscal year received $1.5 million in additional Ministry funding.

- Two foundations had commission income resulting from the rental of televisions to hospital patients.

- Sixteen hospitals had outstanding non-interest bearing amounts owing from their foundations. This information was apparent in many of the hospitals' annual financial statements submitted to the Ministry.

- One foundation charged its hospital approximately $5.2 million during the 1988, 1989 and 1990 fiscal years in accordance with two loan agreements. Under the first agreement, the foundation loaned the hospital $0.7 million in 1976 with no repayment privileges until 2076. Under the terms of this agreement, the foundation manages the staff apartment residences for a fee which we determined to be over 90 per cent of the residences' net profit. The fee during the three fiscal years totalled approximately $3.2 million.

  Under the second agreement, the foundation loaned the hospital $0.5 million in September 1980 to construct a parking garage. This agreement continues until the loan is repaid in full or it matures in September 2079. Under the terms of this agreement, the hospital is required to pay the first $60,000 of the net profits obtained from the parking garage to the foundation and 80 per cent of the parking garage's net profits in excess of $240,000. Under this agreement the hospital paid the foundation approximately $2.0 million during the 1988, 1989 and 1990 fiscal years.

  We feel that the continuing annual payments of approximately $1.7 million are excessive relative to the initial loans totalling $1.2 million and the apartment management services. Furthermore, this hospital received $4 million of additional operational funding from the Ministry for the 1989, 1990 and 1991 fiscal years. The terms of these agreements were apparent in the hospital's annual financial statements submitted to the Ministry.

Follow-up of Complaints Requires Further Improvement

We estimated that each year the Minister of Health receives in excess of 2,600 complaints regarding problems encountered in public hospitals. Responses to letters addressed to the Minister depended on the nature of the complaint. In some cases the Ministry's Corporate Correspondence Unit prepared a reply for the Minister's signature and a copy of the complaint and the Minister's response were forwarded to

Comments on Ministry and Crown Agency Audits

3.6 cont'd

the Branches. In other cases the complaint was referred directly to the Branch teams for appropriate action, which could include requesting that the hospital review and respond to the complainant's concerns and remit a copy of the response to the Ministry.

We noted that a complaint file was maintained for each hospital, however a procedure was not in place at the Branches to ensure that all complaints were followed up. During our 1988 audit, we noted that approximately 50 per cent of the complaints we sampled were not adequately followed up.

We selected a sample of 86 complaints received during the 1990 and 1991 fiscal years. While some improvement was evident, we still noted 18 complaints (20 per cent) which we felt were not adequately followed up. Many of these complaints were directly related to quality of care. For example, according to the complainants:

- a patient with a ruptured appendix was turned away from a hospital's emergency department twice after being diagnosed as having the stomach flu. There was no evidence to indicate that the Branch had performed any follow-up or communicated with the complainant; and

- a patient admitted for a heart attack was placed in a restraining device despite a doctor's written order not to place this patient in such a device. The complainant was told by the Ministry to contact the hospital directly and no further Branch follow-up was performed.

RESPONSE

The Deputy Minister of Health responded to our audit report.

ACCOUNTABILITY FRAMEWORK

Accountability Framework in Process of Being Implemented

"The Ministry will continue to implement the accountability framework approved by Management Board in October 1989. The accountability framework identified both current expectations and planned improvements. Although the Ministry has not produced a specific manual or contract, all hospitals are aware of current expectations regarding Ministry reporting and accountability requirements.

"Plans are under way to strengthen the lines of accountability and reporting requirements between hospital boards and the Ministry through revisions to the Public Hospitals Act. A broad spectrum of health care individuals and groups are involved in providing recommendations to address the need for more governance and management of hospitals, and for strengthened planning, co-ordination and integration of health care services. The report is anticipated in late 1991 or early 1992."

Health
Hospital Operations

3.6 cont'd

OPERATION OF BRANCHES

"The Ministry is of the view that appropriate procedures for monitoring branch activities are in place. Hospitals are required to provide the Ministry with extensive and comprehensive reports which include budgetary, operating and statistical information. All teams follow similar procedures with respect to the review of this information. Operational and financial issues including hospitals' operating budgets are reviewed through a divisional committee to determine action. Divisional senior management are also involved on a case-by-case basis where problems are identified.

"The Ministry does acknowledge that procedures are not all documented, and existing manuals require updating. The Ministry is taking steps to strengthen the documentation of branch monitoring activities."

Monitoring of Bed Closures Requires Improvement

"The Ministry encourages the trend in hospitals to shift the emphasis from in-patient to ambulatory care and improve the utilization of existing in-patient hospital services. Beds are no longer viewed as the only indicator of adequate service availability.

"Hospitals have been able to reduce the number of beds while at the same time meeting service levels by appropriate reductions in hospital in-patient length of stay and an increase in out-patient and day surgery techniques.

"The Ministry policy that has been communicated to the hospital sector is that hospitals must operate within allocated resources. Any changes in service levels of certain specialized programs such as cardiovascular, cancer and in-patient psychiatry require Ministry approval."

Minimal Time Spent Monitoring Many Hospitals' Reports

"Hospitals are required to submit operating reports to the Ministry. These reports are reviewed, analyzed and monitored by Branch Financial Co-ordinators when received. Staff monitor key indicators such as projected year-end operating position and working capital funds. Summaries are available and reviewed by senior management. After initial review by regional teams, further analysis and comparisons are undertaken of hospitals experiencing financial difficulties. These cases are considered priorities for action by the Ministry.

Accreditation Report Recommendations Not Reviewed

"The Ministry considers the review of accreditation reports to be an important procedure to ensure that hospitals have in place standards for all aspects of their facility. Accreditation is a voluntary process. The Ministry will request hospitals to provide this information."

Additional Funding Provided without Assessment of the Resources and Activities of Hospital Foundations

"Hospital foundations are independent legal entities formed for the purpose of raising monies for hospital use. Foundations have important and legitimate purposes, and should be supported by the public and the community. All monies in foundations are

3.6 cont'd

used for hospital purposes. The Ministry has no direct authority over foundations. The issue of the relationship of foundations to hospitals, including the issue of the transfer of funds between hospitals and foundations is under consideration as part of the review of the Public Hospitals Act.

"The policy on the use of hospital operating surpluses by hospitals will be reviewed by the Ministry."

Follow-up of Complaints Requires Further Improvement

"As the report indicates, significant improvement has been made in the handling of patient complaints in the past two years. The Ministry will continue to strengthen its procedures regarding the handling and following-up of patient complaints."

3.7
Monitoring and Cost Control, Ontario Drug Benefit Plan, Ministry of Health

The Province spent over $900 million in the 1991 fiscal year providing drugs and therapeutics to eligible Ontario residents under the Ontario Drug Benefit Plan. The Ministry of Health funded $750 million while the Ministry of Community and Social Services funded $150 million. The Plan is administered by the Ontario Drug Benefits Activity of the Ministry's Health Benefits Program.

SUMMARY

SCOPE AND OBJECTIVES

Our audit objectives were to assess:

- the adequacy of efforts to minimize the cost of drug benefits provided;
- whether payments made were only to registered pharmacies and in respect of claims involving eligible recipients and approved drug products; and
- the adequacy of the post-payment inspection process.

Our audit included interviews with representatives of drug manufacturers and pharmacists' associations, and with Health and Welfare Canada officials. We also held discussions with members of the Drug Quality and Therapeutics Committee, and obtained information from them by means of a questionnaire survey.

CONCLUSIONS AND FINDINGS

ECONOMY

Generally, efforts were satisfactory in minimizing the cost of drug benefits provided. However, there was scope for further savings in delivering certain aspects of the Drug Benefit Plan.

Health
Ontario Drug Benefit Plan

3.7 cont'd

- **Between 1986 and 1990 the cost per capita increased by over 50 per cent. The increase was due primarily to higher drug prices.**

- **We found that 60 per cent of 30 drugs surveyed were priced lower in one or more of the other provinces. If the lower prices had been obtained by Ontario, an estimated $7 million could have been saved annually.**

CLAIMS PAYMENT CONTROLS

Overall, we found that key claims payment controls were operating satisfactorily. However, in carrying out our tests, we found some irregular billing practices which were referred by the Ministry to the Ontario Provincial Police for further investigation.

MONITORING

The post-payment inspection process was less than satisfactory.

- **Almost one half of pharmacies had not been inspected in the last five years. Some pharmacies had never been inspected. On the other hand, a number of pharmacies had been inspected at least three times in the last five years.**

- **Details of verbal prescriptions were not independently verified with prescribers as part of the Ministry's routine inspection. As 70 per cent of prescriptions are requested on a verbal basis the Ministry is vulnerable to false billings.**

- **Monitoring of manufacturers' drug prices was inadequate. In 1990 only 20 pharmacies and one manufacturer were inspected. The excess of Ministry reimbursement prices over manufacturers' prices has been estimated at $20-30 million a year.**

OTHER MATTER

- **The Ministry is working with physicians and pharmacists to control drug abuse.**

BACKGROUND

The Ontario Drug Benefit Plan was established in 1974 to provide selected prescribed drugs as a benefit to eligible Ontario residents.

There are two categories of eligible recipients:

- residents aged 65 or over; and

- recipients of family benefits assistance, general welfare assistance, extended health care benefits, home care benefits, and residents of Homes for Special Care.

3.7 cont'd

Recipients of family benefits assistance and general welfare assistance are assessed for drug benefit coverage by the Ministry of Community and Social Services (MCSS). The Ministry of Health pays claims for these individuals and is then reimbursed by MCSS.

Approximately 2,500 drugs listed in the Ontario Drug Benefit Formulary (Formulary) are covered by the Plan. To be considered as benefits under the Plan, all drugs must have been prescribed by an Ontario physician, dentist, podiatrist or chiropodist. The Formulary is published twice-yearly, in January and July, and includes both brand name drugs and less expensive generic "interchangeable" drugs.

A total staff of approximately 90 people are responsible for administration of the entire Program.

Between 1988 and 1990, the Program was subject to a major review by the Pharmaceutical Inquiry of Ontario, known as the Lowy Inquiry. Established by Order-in-Council, this Inquiry examined all matters pertaining to the acquisition, prescribing, dispensing and use of prescription drugs in Ontario. Our audit took the final report of this Inquiry into account, and references have been made where appropriate.

COMMENTARY

ECONOMY

Once drug products have been approved for sale in Canada by the federal government, pharmaceutical manufacturers can apply to the Ministry of Health to have their products included in the Formulary. The Ministry refers such applications to an independent body, the Drug Quality and Therapeutics Committee. Approximately two thirds of the Committee's 19 members are physicians, while others are specialists in areas such as pharmacy, epidemiology/statistics, and pharmacology. The Committee uses its expertise in reviewing the manufacturers' drug submissions to determine whether a product should be recommended for inclusion in the Formulary.

Need for Review of Increasing Drug Costs

Between 1986 and 1990 the costs of the Ontario Drug Benefit Plan have increased significantly. Program statistics of costs incurred by senior citizens indicated the following:

	1985-86	1989-90	Per cent increase
Senior citizen costs	$319 million	$573 million	80
Number of senior citizens using the Plan	881,000	1,030,000	17
Costs per capita	$362	$556	54
Total number of claims	24.1 million	29.0 million	20
Cost per claim	$13	$20	54

3.7 cont'd

The table illustrates that the number of senior citizens utilizing the Plan had increased by 17 per cent, while the cost per capita had increased by 54 per cent. However, the increase in the number of senior citizens using the Plan was consistent with the increase in the number of claims. Therefore, the increased costs of drugs were primarily responsible for the increased costs of the Plan.

We compared Ontario's costs to those in Quebec, British Columbia, Saskatchewan and Nova Scotia. We found that Ontario's cost per capita of $556 was the second highest. The per capita range for the other provinces was $257 to $693 for the 1990 fiscal year.

Both the Ministry and the Drug Quality and Therapeutics Committee were of the opinion that there was a need to establish the capability for an ongoing drug utilization review specific to Ontario. This was also supported by the findings of the Pharmaceutical (Lowy) Inquiry of Ontario.

Lower Costs of Drugs in Other Provinces

Drug costs are an aggregate of three components:

- the cost to the pharmacy (known as the best available price or BAP);
- a 10 per cent mark-up; and
- a fee charged by the pharmacist for dispensing drug products.

The BAP shall be "net of the value of any price reduction granted by the manufacturer or wholesaler or their representatives in the form of rebates, discounts, refunds, free goods or any other benefits of a like nature."

The BAP is the lowest price at which drug manufacturers will make a product available in Ontario. Rather than actively negotiating these BAP prices with the manufacturers, the Ministry accepts the prices that the manufacturers quoted twice-yearly prior to the publication of the Formulary. The Ministry, however, does adjust the Formulary pricing immediately for any decreases that occurred during the year.

As drug manufacturers can sell the same drug product for different prices in different provinces, it is possible for some drug products to be sold at lower prices outside Ontario.

To determine the extent of price variances between provinces, we compared the Ontario prices for 30 drugs with prices in British Columbia, Saskatchewan, Quebec and Nova Scotia. The drug products selected had either high claims volume or high dollar volume for 1990, and included both generic and brand names. The total amount paid by the Ministry in 1990 for these 30 drugs was approximately $150 million.

We noted that prices were lower for 18 of the 30 drugs in one or more other provinces. If such lower prices had been obtained by Ontario, we estimated that savings for the selected drug products alone would have been $7.2 million in 1990.

3.7 cont'd

The Ministry needs to regularly compare drug prices in different provinces. Furthermore, Ontario should be able to negotiate the most economical drug prices, as the number of recipients using the Program represents approximately 40 per cent of the prescription drug market in Ontario and is larger than the entire population of many other provinces.

Previously the Ministry was not negotiating drug prices with the manufacturers. However, in a May 14, 1991 statement to the Legislature, the Minister of Health indicated that the Ministry would be "actively (negotiating) prices of products with manufacturers."

CLAIMS PAYMENT CONTROLS

The Ontario Drug Benefit Plan processed over 36 million claims totalling approximately $900 million during the 1991 fiscal year. Processing is largely handled by a Claims Assessment and Claims Payment Unit with a staff complement of 37. Technical computer support is provided by the Ministry's User Support Branch.

Satisfactory Controls over Payment of Drug Claims

Most of the key controls for ensuring that claims are properly assessed and paid are computerized. These controls are in the form of edit checks, which are designed to ensure that data submitted on drug claims agrees with data in the following Master Files:

- Eligibility Master File of all eligible recipients.
- Pharmacy Master File of all licensed pharmacies that are registered with the Ministry.
- Formulary/Non-Formulary Master Files listing all drug products eligible for reimbursement along with the reimbursement price.

In examining key computer and manual controls, as well as the integrity of various Master File data, we used computer assisted audit techniques to test:

- approximately 180,000 paid claims, ensuring they agreed to each of the above Master Files; and
- master file data for reasonableness, completeness and accuracy.

These techniques enabled us to obtain a high level of assurance of the adequacy of controls. Test results showed that key controls were operating in a satisfactory manner.

3.7 cont'd

Claims Paid for Deceased Persons

Recipient Eligibility

Although key controls were found to be generally operating in a satisfactory manner, we did notice a weakness in recipient eligibility that has existed since 1982. The Eligibility Master File is updated monthly based on records received from the federal government detailing Ontarians receiving Old Age Security (OAS) benefits. The control weakness stems from an internal policy that keeps people on the Master File for seven months after they have been deleted from the OAS records.

The policy was implemented in 1982 in response to complaints from pharmacies regarding high rejection rates on valid claims for seniors who had returned to the Province after vacationing in warmer climates for the winter. Many of these seniors lost their status as Ontarians in the OAS records while vacationing, and delays in regaining this status upon return resulted in rejected claims. Information received from the federal government now includes these recipients and simply identifies them as having questionable Ontario residency. This eliminates the need for a grace period.

In February 1991 the Ministry received data on all OAS recipients who had passed away in 1990. At our request they electronically matched this data to all paid claims in 1990, and discovered that over $100,000 had been paid on claims charged to recipients who were reportedly deceased.

Joint Inspection Effort

As a result of these findings we met with the Ministry's inspection branch. They felt as we did that this matter required further attention. We worked together in identifying high risk pharmacies for investigation and in developing a detailed inspection approach. In addition, we accompanied Ministry inspectors on a sample of pharmacy visits.

While many of these anomalies were attributable to clerical errors, we did notice a number of invalid claims. For example:

- Drugs dispensed to deceased former residents of nursing homes, due mainly to poor communication between the home and the dispensing pharmacy. We noted similar problems involving cancelled medications and residents who had been discharged.

- Overbillings in respect of deceased persons due to sloppy billing practices.

In addition to these administrative deficiencies, **we also found some irregular billing practices. Because of the serious nature of the irregularities, they have been referred by the Ministry to the Ontario Provincial Police for further investigation.**

3.7 cont'd

MONITORING

Inadequate Inspections

The Ontario Drug Benefit Plan Inspection Unit is responsible for monitoring payments made to pharmacies through a post-payment inspection process.

The Unit's five field inspectors (who are licensed pharmacists) are responsible individually for five southern regions and collectively for five northern regions. The inspectors enjoy considerable autonomy, given that they work out of their homes and are relatively free to choose which pharmacies to inspect.

The Unit also performs in-depth inspections when false billings are suspected. This entails extensive investigation, including visits to prescribers and recipients, in order to confirm the details of verbal prescriptions billed. There have been serious cases in which the Ministry has worked with the Ontario Provincial Police to obtain criminal convictions.

The Unit has recovered approximately $1 million over the last five years on billings of over $2 billion.

Inspection Coverage

Management currently focuses on the number of inspections performed annually. Inspectors are evaluated mainly on the performance of a specified number of inspections annually. Since information on inspection activity was not aggregated or analyzed further, the Ministry did not know what type of inspection coverage was being achieved.

We compiled statistics on five years of inspection activity from Ministry records and found:

- **Slightly more than 50 per cent of pharmacies were inspected in the last five years. At this rate it would take around 8 to 10 years to cover all pharmacies. An average pharmacy could receive more than $2.5 million without having its prescription records scrutinized.**

- Inspection coverage varied greatly among the five main regions. Coverage ratios varied from 64 per cent in the top region to 37 per cent in the worst.

- **In a random sample of 70 pharmacies, we found that 16 had no record of ever being audited.**

This poor coverage weakened the deterrent effect of the inspection function.

Inspection Focus

While many pharmacies had not been inspected in the last five years, we found that over 100 pharmacies had been visited at least three times during this period. We reviewed a sample of 15 such inspections conducted in 1990 to assess whether intensive scrutiny was warranted. We found that nine of the

3.7 cont'd

fifteen inspections sampled related to pharmacies for which no recoveries were made nor warnings issued on previous visits.

Some of the nine triplicate inspections related to pharmacies with relatively high billings per capita. However, they were conducted at the expense of overall cyclical coverage and the higher risk cases. In this latter regard, we selected 12 pharmacies associated with pharmacists disciplined by the College between 1987 and 1989. Seven of those sampled had not been inspected subsequent to the action taken by the College. We also found that follow-up inspections were generally not performed in pharmacies which were known to have overbilled in 1988 and 1989.

High Risk Verbal Prescriptions

The majority of prescriptions are issued by physicians. Prescriptions can take the form of written direction, or they can be issued verbally, usually by telephone.

Based on discussions with the Ministry and the Ontario College of Pharmacists it is estimated that **roughly 70 per cent of prescriptions filled are verbal**. This involves approximately 25 million claims and over $600 million paid annually by the Province.

During our review we noted that the inspectors did not verify the details of verbal prescriptions with physicians as part of a routine inspection. In our view, this leaves the Ministry vulnerable to false billings. In this regard:

- We sampled seven recoveries involving large billings of a fraudulent nature between 1986 and 1990 and found in six cases that falsified verbal prescriptions had been used to overbill. In addition, our review of 17 large recoveries between 1988 and 1990 showed most overbillings were related to verbal prescriptions.

- Irregularities that were referred to the Ontario Provincial Police involved verbal prescriptions.

In addition, the August 1990 newsletter of the Ontario College of Pharmacists reported that Metro Toronto Police had recently charged a person with 41 counts of false pretences and impersonation, in connection with the issuance of verbal prescriptions.

Given this scenario, we recommended that the Ministry implement a standard inspection procedure of confirming details of verbal prescriptions with prescribers and/or recipients on a test basis.

Inadequate Investigations into Best Available Price

The *Prescription Drug Cost Regulation Act* governs the reimbursement of drug prices at best available price (BAP) and allows the Ontario College of Pharmacists to appoint inspectors to enforce BAP. Initially, at the request of the Ministry, several Ministry representatives were appointed. However, due to limited Ministry resources, only a single individual was subsequently available to enforce BAP. The individual was

3.7 cont'd

responsible for visiting pharmacies and manufacturers to review documentation, as well as for daily administration of the Formulary prices area, and regular updating of the published Formulary.

During 1990 only 20 pharmacies and one manufacturer were visited. These visits detected several violations of BAP which involved pharmacists actually paying distributors a price lower than BAP. Consequently, the Ministry reduced the prices of ten drugs in the February 1991 Formulary to the lower prices found. The reductions were retroactive to July 1990, resulting in estimated recoveries of $1.2 million. This example only underscores the need for additional investigations.

Also, with respect to the BAP investigations we noted the following:

- No formal procedures were in place, either for identifying and selecting the number and location of the pharmacies and drug manufacturers to visit, or for conducting such investigations.

- In 1990, the Ministry received 20 complaints from various pharmacists regarding BAP violations by others. There was no evidence the Ministry acted on these complaints.

Our discussions with Ministry representatives and associations of manufacturers and pharmacists revealed a general consensus that BAP violations existed in the marketplace. However, neither the Ministry nor the other organizations had extensively analyzed this problem. Although estimates of the impact of the problem ranged from $20 million to $30 million a year, there was no hard evidence to support this range.

The Ministry had recognized this problem, and was considering several options including: new regulations requiring pharmacies, manufacturers and wholesalers to increase their reporting of prices paid for drugs and information about discounts, rebates, free goods and other incentives; and the creation of a special unit dedicated to BAP non-compliance work.

OTHER MATTER

Control of Drug Abuse

The Ministry had been actively monitoring cases of heavy users of drugs under the Plan. Ministry efforts were aimed at controlling costs in these situations, by alerting pharmacists and physicians of abuse of the Plan by patients who visited a number of physicians to obtain drugs.

One report by the Ministry to the College of Physicians and Surgeons indicated 28 cases of apparent drug abuse, when 42 individuals were investigated because of the large number of pharmacies they had visited. For example:

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- During a six month period, one individual had prescriptions from 72 different physicians filled in 33 different pharmacies.

- Another individual made extensive use of 42 physicians throughout Metro Toronto. Similar narcotic and tranquilizing drugs were received from two different doctors and two pharmacies on the same day.

The Ministry views its efforts and the disclosure of such information to the College as essential for the College in the discharge of its responsibility to protect the public interest. However, the *Freedom of Information and Protection of Privacy Act* regulates disclosure of personal information. Consequently, there is a need to clarify how information is to be shared with various organizations, including the Ontario College of Pharmacists. The Ministry's legal department was addressing the disclosure issue.

RESPONSE

The Deputy Minister of Health responded to our audit report.

ECONOMY

Need for Review of Increasing Drug Costs

"The Auditor's report notes higher Ontario per capita program costs than in other provinces. These result in part from the fact that in those provinces, the consumer is required to pay a portion of the costs, and in some provinces drug programs also cover all non-elderly, who on the average receive fewer prescriptions and have lower costs per capita. Interpreting these comparative data requires consideration of the impact of factors such as these.

"The Ministry is currently working with the Ontario College of Pharmacists, the College of Physicians and Surgeons of Ontario, the Ontario Pharmacists' Association, the Ontario Medical Association and the Faculties of Medicine and Pharmacy of the University of Toronto towards developing models for the establishment of a drug utilization review (DUR) capability in Ontario. A multidisciplinary steering committee has been established and has held a number of meetings to plan a symposium to develop an appropriate DUR model for Ontario."

Lower Costs of Drugs in Other Provinces

"The report suggests that had Saskatchewan prices been applied in Ontario, a savings of $7.2 million would have been realized in 1990. It should be noted that in Saskatchewan, the tendering system (Standing Offer Contract, SOC) involves eliminating all but the tender-winner from the marketplace for a period of six months."

Editorial Note: Less than one half of the estimated savings of $7.2 million related to price differentials between Saskatchewan and Ontario.

"The Drug Programs Branch has initiated a review and comparison of drug prices in the ODB Formulary to the prices paid by other provinces. Letters were sent on

Comments on Ministry and Crown Agency Audits

3.7 cont'd

July 23rd and 24th, 1991 to those manufacturers whose prices in the January 1991 Saskatchewan Formulary were less than the Best Available Prices published in the February 1991 Ontario Formulary.

"Manufacturers were asked to clarify why their products were priced lower in Saskatchewan relative to Ontario. The Ministry has received responses from manufacturers, and is developing a strategy to resolve this issue."

MONITORING

Inadequate Inspections

Inspection Coverage

"The eight- to ten-year coverage cycle is mainly the result of a decline in the number of inspectors at a time when the ODB Program experienced significant growth."

"Various controls are in place to set goals, measure inspection activity, and track audit activity. However, specific aggregate statistics are not readily available. This shortcoming will be remedied by the implementation of a database management system for which a prototype has already been developed."

"The Ministry accepts the recommendation that there should be a re-examination of inspection coverage practices. The new database management system will be used to identify geographic areas or particular accounts that have not been inspected for a long period of time. Resources will be shifted accordingly to avoid the extremes noted by the Auditor."

Inspection Focus

"Regarding multiple audits, approximately 100 triplicate audits were conducted out of a total of 2,200 audits conducted during the most recent 5-year period. Many of these derive from the sampling policy to annually inspect high-risk accounts; eight of 15 triplicate audits sampled were directly due to targeting 'high cost per patient' accounts. The Auditor recommends changing the definition of high-risk accounts. Implementing those changes will alter the focus of the audit policies and objectives, but they will not shorten the audit cycle."

"To date, most repeat audits are the result of a policy to audit the highest 'cost per patient' accounts each year, regardless of whether or not discrepancies were encountered on the previous inspection.

"In accordance with the Auditor's suggestion, targets will be realigned to emphasize accounts from which recoveries were made or warnings issued on the previous visit. The database management system will incorporate this objective.

"In addition, the current policy of increased audit scrutiny for past offenders against ODB will be expanded to include pharmacists disciplined by the Ontario College of Pharmacists for offences related to lack of integrity.

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"The Ministry will also give consideration to the addition of forensic expertise to strengthen its inspection capacity."

High Risk Verbal Prescriptions

"The Auditor correctly identifies verbal prescriptions as a risk area, vulnerable to false billing.

"The Ministry verifies samples of prescription billings by visiting physicians and patients when false claims are suspected; however, it does not verify samples during routine audits."

"The feasibility and opportunity for using verification letters to physicians will be investigated, taking into account the effects of Freedom of Information restrictions, and the implementation of a procedure to collect prescriber identifiers.

"The claims payment system has already been altered to accommodate a prescriber identifier as part of the billing information collected. The Ministry has been discussing the collection of such data with the professional Colleges involved.

"The legal issues surrounding the Freedom of Information and Protection of Privacy Act, regarding the use of verification letters will be examined."

Inadequate Investigations into Best Available Price

"The Drug Programs Branch has initiated several steps to implement the Auditor's suggestions in this area. Work is already underway on the adoption of regulations requiring regular reports by pharmacies, manufacturers and wholesalers, of prices paid for drugs, and of any rebates, discounts, free goods, and other incentives."

OTHER MATTER

Control of Drug Abuse

"The Auditor correctly notes that there is a need to clarify Freedom of Information issues regarding the sharing of information about drug abuse. The Ministry will further explore the legal issues surrounding the Freedom of Information and Protection of Privacy Act as it relates to the sharing of information about drug abuse."

Comments on Ministry and Crown Agency Audits

3.8
Industrial Assistance, Ministry of Industry, Trade and Technology

The Ministry's Industry and Trade Expansion Activity provides financial assistance to major private sector capital projects. During the six fiscal years from 1986 to 1991 the Ministry provided approximately $275 million in financial assistance, by way of grants and loans, to 24 large industrial projects. The Ministry also provided approximately $90 million in loan guarantees to three other projects.

SUMMARY

SCOPE AND OBJECTIVES

We audited a representative sample of nine projects funded by the Ministry. Financial assistance provided to these projects totalled $170 million representing over 60 per cent of the total funding of $275 million. Our audit included discussions with Ontario Government officials and site visits.

Our audit objectives were to assess whether the Ministry:

- ensured that projects were properly evaluated for financial assistance prior to Cabinet approval; and
- monitored recipients for compliance with the terms and conditions of the agreements.

CONCLUSIONS AND FINDINGS

EVALUATION OF PROJECTS

We concluded that the Ministry's project evaluation process was unsatisfactory.

- **The Ministry's Industrial Adjustment Section lacked a clear mandate. Consequently, some projects which should have been handled by the Section were negotiated by an agency. On one such project, the Province lost $8 million.**
- **For some projects:**
  - **the need for and level of government assistance were not properly evaluated;**
  - **reasonable assurance of the project's success was lacking; and**
  - **information in the Cabinet submissions was inaccurate or incomplete.**

MONITORING OF PROJECTS

The Ministry's monitoring of projects for compliance with the terms and conditions of the agreements was less than satisfactory. There was

Industry, Trade and Technology
Industrial Assistance

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no evidence that such benefits as Canadian content and skills training were properly monitored.

We noted that the Ministry has begun to address the deficiencies in the delivery of its industrial assistance program.

BACKGROUND

The Industry Adjustment Section of the Ministry's Industry and Trade Expansion Division was established in 1985 to provide special assistance to large private sector industrial projects which were not eligible for funding under other established government assistance programs. Prior to July 1985, such assistance was provided by the Board of Industrial Leadership and Development (BILD) under the Economic Policy Program of the Ministry of Treasury and Economics.

To be eligible, an applicant had to demonstrate a potential for long-term economic benefits to the Province. Such benefits included development of key industries, strengthening of economically depressed regions and the creation of stable jobs.

Assistance was usually provided in the form of grants, loans and/or loan guarantees. The Ontario Development Corporation (ODC), an agency of the Ministry, disbursed the funds and monitored the projects.

The following is a breakdown, by industry sector, of the 24 projects funded by the Ministry from 1986 to 1991 and the nine projects we audited:

	$million	%	Audited Projects	$million
Loans:				
Automotive	129	47	#1*	54
			#2	35
			#3	40
Automotive parts	93	34	#4	8
			#5*	10
Forest products	27	10	#6	7
Aeronautics	9	3	#7*	9
Other	17	6	#8	7
	275	100		170
Loan Guarantees:	90	100	#9	3

*These projects were approved by BILD.

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COMMENTARY

EVALUATION OF PROJECTS

Overview

Requests for assistance come from various sources such as the Ministry's domestic and international offices, the Minister's Office, the Development Corporations and other ministries.

The Ministry's Industry Adjustment Section evaluates each application to determine if government assistance is critical for a project to proceed. This requires considerable judgement and skill. Also, financial incentives may sometimes be necessary to attract key projects to Ontario from competing jurisdictions.

The project is then analyzed for reasonable assurance of long-term success. At times, the Ministry may assume greater risk to focus on industrial development.

Negotiations are conducted with the successful applicant to agree on the nature and level of funding. This is largely determined by the needs of the applicant, established precedents and availability of funds. The federal government participates in many of these projects.

Finally, a draft Cabinet submission is prepared for consideration by the Ministry's Senior Management Committee and the Inter-Ministerial Committee before Cabinet approval. The Cabinet submission outlines the benefits and costs of a project with the Ministry's recommendation for approval.

After Cabinet approval, a legal agreement is signed with the applicant.

Unclear Mandate

The Industry Adjustment Section is responsible for the overall management of the Ministry's participation in large industrial projects. Its main objective is to derive maximum benefits from sponsored projects while ensuring a level of consistency in the Province's involvement.

We noted that certain projects were negotiated by ODC, although they fell under the Section's mandate. According to the guidelines approved by Cabinet in 1988, these projects were beyond ODC's lending limits and, as such, should have been evaluated by the Industry Adjustment Section. The guidelines limited ODC to loans of $500,000 and to loan guarantees of $1 million.

As noted in the Background, eligible applicants had to demonstrate a potential for long-term economic benefits to the Province. The assistance given to the following companies was supposed to help them through temporary financial difficulties. However, our review of the project files indicated that the projects were driven more by the pressure to save jobs in the short run than the assurance of long-term viability.

- A trailer manufacturer (Project #8) was provided with a $1 million loan guarantee in 1988 and a $6.6 million loan in 1989. The loan was to help the

3.8 cont'd

company weather a temporary market decline caused by delays in legislation allowing 53-foot trailers in the province.

Eight months after the company received the $6.6 million, the banks called their loans and **the Province lost $8 million including interest**.

The recommendation to Cabinet to fund the company was made by the Ministry of Transportation (MTO). At the request of MTO, ODC provided an assessment of the financial viability of the company. Based on this assessment, ODC advised MTO that funding the company would be "high risk."

Our examination of the project files indicated that at the time of the loan the company was on the verge of bankruptcy. The company had been experiencing extreme financial difficulty for a long time and the banks were ready to call their loans. Under the circumstances, the recommendation to fund the company was questionable.

- In November 1990, ODC recommended a $2.5 million loan guarantee to a financially troubled automotive parts manufacturer (Project #9). Earlier, in 1986 and January 1990, the company had also received $1 million in loan guarantees from ODC.

  The project file indicated that the $2.5 million loan guarantee would only help the company survive another six months. One senior ODC official had also raised serious concerns over the company's lack of financial viability and weakness in its management.

  Six months later the company was put into receivership. The final loss to the Province has yet to be determined.

- In addition to the nine audited projects listed in the Background, we also examined the following project, which was evaluated and funded by ODC.

  On November 1, 1990, a carpet manufacturer was placed into receivership. To save the company, ODC evaluated and approved a merger that required a $5 million loan and a $2 million loan guarantee.

  In placing the financially troubled carpet manufacturer into receivership, the company's bank had decided that the textile manufacturing industry in Canada had no future. Because of that concern and the significant amount of funding involved, ODC's recommendation to provide government assistance, without consultation with the Ministry, was questionable.

  Also, given the resources available within the Ministry, we question the hiring of consultants by ODC to review the operational and financial viability of the company. Fees paid to the consultants totalled approximately $125,000.

  ODC advised us that early indications were that the project had been a success and its future looked good.

We recommend that the Ministry review the 1988 Cabinet guidelines and clarify the roles and responsibilities of the Industry Adjustment Section and ODC.

3.8 cont'd

Need for Assistance Not Evaluated

The project files we reviewed contained little or no evaluation to justify the need for government assistance. This was particularly evident in the following projects:

Project #2

In 1985, the Province agreed to provide approximately $100 million of interest free loans and other benefits to help a foreign company build a $400 million automobile assembly plant in Ontario. The Ministry's share was a $35 million repayable loan, interest free for 14 years. The loan was paid by the Ministry in five installments between May 1987 and January 1988. Repayments are to commence in June 1995 at the rate of $5 million per year for seven years.

The company also received a commitment from the federal government for tax and duty exemptions. One of the major benefits to Ontario was the creation of approximately 1,000 new jobs. Production started at the plant in November 1988.

The Ministry claimed that provincial assistance was necessary to provide the company with an acceptable return on investment and to compete for the project with other provinces. However, we found no evidence to support these claims.

Instead, based on our research and review of the project file, we learned the following:

- In the summer of 1985, well before provincial participation, the company publically announced it would build assembly plants in both Canada and the U.S.A. Voluntary export restrictions in its country, the rising currency exchange rate and increasing domestic production costs justified this move. Moreover, the move provided an opportunity for the company to increase its market share.

- The company was also seeking to attain Canada/U.S.A. Auto Pact status by locating a plant in Canada and producing to the required level of Canadian content. As an Auto Pact member, the company could import to Canada automobiles and parts free of the approximately 10 per cent duty as long as its minimum level of production matched the sales in Canada. Also, duty-free access to the markets in the U.S.A. would be assured. These benefits were not available from a location in the U.S.A.

- Southern Ontario offered many advantages of location to automobile manufacturers. It was the largest market in Canada and housed most of the automobile and parts manufacturers. There was also a good supply of skilled labour, hydroelectric power and ready access to major distribution routes to markets in the U.S.A.

We also noted that the first company from that country to build an assembly plant in Ontario (opened November 1986) received only minimal provincial assistance (approximately $2 million) for infrastructure costs. According to the company, its decision to locate in Ontario was influenced more by the factors noted above than by the amount of provincial assistance.

3.8 cont'd

Project #3

In 1986, the Province agreed to provide $50 million in forgivable loans and grants to a project to build a $500 million automobile assembly plant in Ontario. The project was a joint venture between two foreign companies. One of the major benefits to Ontario was the creation of 2,000 new jobs. The Federal Government also offered assistance to the venture in the form of training grants and duty exemptions.

The Ministry's share was a $40 million forgivable loan paid in one amount in June 1987. The loan is forgivable against specific performance targets including investment, production and achievement of Auto Pact status. Production at the new plant started in April 1989.

One company needed an entry into the subcompact car market whereas the other wanted to enter the North American market. A joint venture study done in 1984 saw the feasibility of locating an assembly plant in Canada. For many of the same reasons as Project #2, this project was expected to benefit most by locating in Ontario. Importantly, duty-free access to markets in Canada and in the U.S.A. as an Auto Pact member would be assured. We found no evidence that the Ministry had considered these factors in its deliberations.

Assurance of Project Success Lacking

We found that the project files we examined generally lacked proper evaluation of the project's viability and verification of information submitted by the applicant. The Ministry often readily accepted the applicant's optimistic forecasts and representations. We noted that some projects had not subsequently lived up to the original expectations. For example:

Project #4

In 1986, the Ministry provided an $8 million interest free, forgivable loan towards a new $40 million aluminum wheel manufacturing plant. This was a joint venture between a foreign company and a Canadian company.

The new plant started production in early 1988. The project file indicated that the plant needed to run at full capacity of 700,000 units per year to break even. However, we found no evidence of an assessment by the Ministry to support the reasonableness of the sales forecast based on industry performance, trends and competition.

In July 1990, the Canadian company sold its interest to its foreign partner. That company, in turn, sold 75 per cent of its interest to another foreign company in September 1990.

During our site visit in early 1991, we noted that the plant was operating at only 30 per cent capacity. The plant had suffered losses of over $30 million in 1990. The new owners of the plant indicated that the capacity would have to be increased to over one million units per year and the production process improved before the plant could be made viable.

3.8 cont'd

Project #6

In 1987, the Province approved a $6.8 million loan to an Ontario company to build a $40 million particleboard mill that would produce Ontario's only state-of-the-art combination medium density fibreboard (MDF). The Federal Government also provided the company with a $6.7 million loan. Proposed benefits to Ontario included employment, regional development and use of environmental waste products.

The Ministry paid the loan of $6.8 million in 1988. The loan is interest free until January 31, 1993. Repayments of principal and interest are to commence thereafter until December 1, 1997. The mill was completed and production begun in May 1989.

The feasibility study prepared by the company formed the basis for the assistance. The study assumed that a related company would use over 60 million square feet (60 per cent) of the MDF in the manufacture of another particleboard product. This unrealistic assumption was not questioned by the Ministry even though, at the time, the related company was producing only 10 million square feet of this particleboard product.

We learned from our site visit that the plant was unable to produce MDF and was limited to producing regular particleboard. Consequently, the plant, the largest in Ontario, has been competing directly with other existing particleboard manufacturers. Currently, the plant is operating at 30 per cent capacity and its future is uncertain.

Inconsistent Level of Assistance

It is important for the Ministry to conduct well-planned negotiations to maximize the benefits to the Province while ensuring consistency in the level of funding. We could not tell from the files for the nine projects we examined whether the negotiated funding levels were reasonable.

Funding levels varied significantly from one project to the other. To illustrate, funding levels for the three automotive projects on a "$ per job" basis per the Ministry were as follows:

Project #	Job $
1	9,000
2	44,000
3	27,000

Deficiencies in Cabinet Submissions

We found deficiencies in the submissions to Cabinet. **We questioned whether the information contained in the submissions was always accurate or complete enough for the Cabinet to make an informed decision.** In 1989 the Cabinet Office issued a memorandum to Deputy Ministers regarding the quality of Cabinet submissions. Specifically, the Office noted that the submissions presented

3.8 cont'd

only one option or that the analysis of alternatives was heavily slanted towards one particular course of action.

Also, in some instances, the legal agreements signed by the Ministry with the applicants were not consistent with the Cabinet submissions. For example:

Project #2

The Cabinet submission understated the actual cost of provincial assistance. For instance, it did not mention the following additional costs to the Province:

- $23 million of infrastructure costs;
- $14 million of provincial sales tax exemption; and
- $8 million from sale of crown land below market value.

Consequently, the actual cost to the Province of the 1,000 jobs created was approximately $100,000 per job compared to the Ministry's figure of $44,000 per job.

The submission also claimed that 20 per cent Canadian content would be achieved. However, the agreement with the company only required "best effort." This term was not defined.

Project #6

The Cabinet submission claimed that 134 direct jobs would be created by the project. This number was based on the applicant's business plan.

However, the agreement with the applicant reduced this number to 66. We learned from the company that the original number was unrealistic.

Rejected Projects

The Ministry does not maintain a log of projects reviewed for assistance. At our request, the Ministry compiled a list of all projects, totalling over 200, that had been reviewed by the Ministry. From this list we selected seven rejected projects for our review.

We found deficiencies similar to those noted earlier for the approved projects. For example, the project files lacked adequate analysis and support to justify rejection. Furthermore, there was no follow-up to see whether certain projects had indeed proceeded without government assistance and how well these had succeeded.

In our opinion, such follow-up would assist the Ministry in continuously improving its evaluation process.

3.8 cont'd

MONITORING OF PROJECTS

Roles Not Clearly Defined

The Ministry had not clearly defined the ODC's role in monitoring projects on its behalf. This was left to ODC's own interpretation and discretion.

After a project was turned over to ODC, it was largely forgotten by the Ministry. ODC only reported to the Ministry when a serious problem occurred.

ODC's consultants do not participate in the negotiations or writing of the agreements. In our opinion, participation is important to the understanding of the agreements and familiarization with the projects. Furthermore, such participation would enhance ODC's accountability and provide a greater incentive for it to fulfil its role. This is illustrated by the following example:

Project #6

In its Cabinet submission, the Ministry claimed that a new plant would reduce environmental pollution in the region by using approximately 130,000 tonnes of wood waste per year that would otherwise be burnt or dumped in the surrounding area by sawmills. However, this condition was not written into the agreement. Consequently, neither the ODC consultants nor the Ministry followed up to see how much wood waste was consumed by the plant. We learned from our site visit that the plant used only 30,000 tonnes in 1990, or 20 per cent of the planned annual consumption.

At the time of our audit, we were informed that the Ministry and ODC were working on a memorandum of understanding to clarify their respective roles and responsibilities.

Insufficient Monitoring of Projects

A project must be monitored throughout its life. This ensures that the covenants in the agreements are satisfied and that the Province realizes all the intended benefits. Typically, these benefits include job creation, skills development and Canadian content.

ODC had no formal monitoring guidelines to assist its consultants. The consultants used their own judgement in deciding what and how much to monitor. We noted that information in the project files was mostly of a financial nature submitted by the recipients. Documentation of any work done by ODC consultants was generally sketchy. Especially, we found no evidence of follow-up on the more important benefits to the Province stated in the agreements. For example:

- Many agreements required a recipient to make "best efforts" in increasing the level of Canadian content. However, no attempt was made by the consultants to define and monitor this. We noted, for instance, that the Canadian content level ranged from 20 to 45 per cent for the three automobile projects (Projects #1, 2 and 3).

Industry, Trade and Technology
Industrial Assistance

3.8 cont'd

- Standard skills training clauses were included in all agreements. This was done to ensure that new skilled jobs were created and not merely filled from the existing pool. However, this requirement was largely ignored by the consultants as they thought that the Ministry of Skills Development (MSD) was responsible for monitoring this aspect of the agreements. Yet, MSD claimed that such an arrangement did not exist.

ODC explained that the deficiencies were partly caused by poorly written agreements and lack of communication with the Ministry.

We were also advised that ODC is currently in the process of developing a procedural manual to improve its monitoring function.

RESPONSE

The Deputy Minister of Industry, Trade and Technology responded to our audit report.

GENERAL

"The Audit was neither complete nor comprehensive. With the exception of the ODC-negotiated projects, the selected projects were evaluated and approved a number of years ago prior to the involvement of any of the present Section staff. It is therefore surprising that no attempt was made to interview either Ontario or Federal Government personnel who were active at that time, nor, apparently, was there any attempt to review relevant government records, other than those in the files of ODC and the Ministry's Industry Adjustment Section."

EVALUATION OF PROJECTS

Unclear Mandate

"Although the source of funding for the trailer manufacturer and the automotive parts manufacturer eventually came from the Industrial Assistance program, it was not apparent that this would be the case at the time ODC became involved. For instance, in the case of the trailer manufacturer, it was initially intended that the Ministry of Transportation could provide the funds as outlined in the Cabinet minute reflecting the transaction. For the other two transactions, it was initially not readily apparent that the financial assistance required would be in excess of ODC program guidelines. It did not make sense to change lending organizations in midstream. The then Deputy Minister of MITT concurred with ODC's recommendation on both transactions. In all cases, ODC obtains, either alone or working with other ministries, Cabinet approval for transactions which are beyond its limits. It did so in each of these cases.

"The following additional facts are also pertinent to the cases mentioned and should have been considered in the audit commentary:

> *"For Project #8, it is unclear whose recommendation was found questionable. If the recommendation is that of the Ministry of Transportation, then the*

3.8 cont'd

response should come from them. If the recommendation is that of ODC, then its advice was that the funding would be 'high risk.'

"For Project #9, there was a six-month window of opportunity for the firm to restructure its operations. While ODC recognized that the investment risks were high, the costs associated with an immediate failure were also significant. Among these was the impact on the local community of the closure of several other major automotive parts manufacturers in the area. While ultimately the firm was unable to overcome its difficulties, the company was able to operate for an additional six months employing over 200 workers.

"In the case of the carpet manufacturer, while the future of an industry may be affected by adverse market conditions and foreign competition, it does not follow that all firms within that industry will fail. ODC should not be accepting the judgement of the individual banks on which industries in Canada have no future. Since the investment was made, the company has discharged a $12.7 million debt to the receiver eight months ahead of schedule, has met its sales target, and has been profitable. Most importantly, 350 employees were re-hired since start-up and the company expects to hire an additional 25 in the next two months."

Need for Assistance Not Evaluated

"For Project #2, Ministry records show $73 million (rather than approximately $100 million) in loans and grants having been approved - a $35 million repayable loan, a $15 million training grant, and $23 million in infrastructure costs.

"[In both Projects #2 and #3], the companies were desirous of locating in Canada, but were in no way committed to an Ontario location. In particular, the Province of Quebec was aggressively competing with Ontario and other Canadian provinces by offering generous financial assistance. In fact, at least two other automobile manufacturers invested in Quebec because Ontario was not willing to match assistance given by that province. Most of the relevant advantages cited in the report are also available from a Quebec location. The fact that another [foreign] company received only minimal assistance does not detract from the substantial benefits derived from the investments made in Projects #2 and #3."

Assurance of Project Success Lacking

"The thrust of the criticism in this section is that projections were not fulfilled. While this is true, it is common knowledge that the unanticipated overcapacity in North American automobile production, together with the recent recession, was not predicted by even the most expert analysts.

"For Project #4, the Report fails to note that the company was accommodating the Province in locating this facility in Collingwood, which had suffered significant employment losses following shipyard rationalizations."

3.8 cont'd

Inconsistent Level of Assistance

"It is unrealistic to expect the funding levels on a '$ per job' basis will not vary from project to project. This is just one of many factors evaluated in the decision on financial assistance. The higher cost per job for Project #2 was primarily the result of an intense competition between Ontario and six other provinces."

Deficiencies in Cabinet Submissions

"For Project #2, with respect to the costs noted:

> *"The original Cabinet submission did in fact mention infrastructure costs, but the amount had not been determined at that time. The amount was approved at a subsequent Cabinet meeting.*
>
> *"Provincial sales tax exemptions were available to any eligible manufacturer, and no Cabinet approval was required or requested.*
>
> *"The selling price of crown land was not below market value for unserviced farm land at that time.*

"For Project #2, it should [also] be noted that:

> *"ODC files indicate that the company has met or exceeded production and employment targets.*
>
> *"The company's Ontario facility was recently rated the top product quality automaker in North America by J. D. Power & Associates."*

MONITORING OF PROJECTS

Roles Not Clearly Defined

"Contrary to the Audit Report, the role of ODC in disbursement and monitoring of projects is clearly set out in the Ministry's Manual of Administration (Section No. MA-15-02-05). The monitoring requirements for each project are defined in the loan agreements negotiated after the evaluation and approval process."

Editorial Note: The Manual stated that the ODC is responsible for monitoring projects. However, it provided no details on how this responsibility was to be carried out.

Insufficient Monitoring of Projects

"ODC monitoring is directed at areas such as capital investment and job creation, where the loan agreements provide specific targets which must be met. The monitoring procedures appropriately emphasized those provisions in which undertakings are quantifiable, where specific targets apply and which are therefore

3.8 cont'd

more readily enforceable. Given limited resources, this was and is a prudent basis for monitoring the agreements."

The Deputy Minister of Transportation responded regarding Project #8 discussed in the Commentary section "Unclear Mandate."

"The Ministry of Transportation was not involved in the 1988 decision to provide a $1 million loan guarantee.

"In November 1989, the government announced its intention to introduce legislation extending the allowable trailer length from 48 to 53 feet.

"The trailer manufacturers subsequently informed the Ministry that new orders for 48 foot trailers were declining and existing orders were being cancelled pending the passage of the new legislation.

"Two trailer manufacturers approached the government for financial assistance because of the decline in business created by the government's announcement.

"The evaluation of this request included a risk evaluation by ODC.

"The recommendation, after meetings between ODC, Treasury, MITT and MTO representatives, was made in the context of the legislative announcement allowing longer trailers to increase the productivity of the Ontario trucking industry. The recommendation recognized the need to retain the viability of the Ontario trailer manufacturing industry, and this manufacturer in particular, during the period of uncertainty."

Labour
Construction Health and Safety

3.9
Construction Health and Safety Activities, Ministry of Labour

The Construction Health and Safety Branch of the Ministry of Labour administers and promotes compliance with the *Occupational Health and Safety Act* (Act) and its Regulations relevant to construction projects.

The Branch had expenditures of $10.5 million for the fiscal year 1991 and a staff of 153 employees.

SUMMARY

SCOPE AND OBJECTIVES

Our audit included discussions with Branch officials and staff, visits to 8 of the 14 district offices and a review of 370 inspection files.

We assessed whether:

- a satisfactory system existed for the measurement and reporting of program effectiveness;
- resources were utilized efficiently; and
- staff training was adequate.

CONCLUSIONS AND FINDINGS

RESULTS MANAGEMENT

An unsatisfactory system existed for the measurement and reporting of program effectiveness.

- **Measures used represented production indicators and were not appropriate to measure the impact of the program on the work environment.**

UTILIZATION OF RESOURCES

Resources were not utilized efficiently.

- **Few work plans were prepared by inspectors.**
- **Numerous priority projects never received an inspection.**
- **No system was in place to identify repeat offenders of the Act.**
- **A number of projects were not inspected during the critical early stages of construction.**
- **The Branch's management information system and information technology required updating to improve service and productivity.**

Comments on Ministry and Crown Agency Audits

3.9 cont'd

HUMAN RESOURCES FUNCTIONS

Controls over staff training were satisfactory.

BACKGROUND

The *Occupational Health and Safety Act* and its Regulations provide minimum standards for health and safety concerns at worksites across the province. The Construction Regulations provide specific standards for the construction industry on such matters as: storage and handling of toxic substances on sites; technical specifications on scaffolding, explosives, and cranes; and working conditions for confined workplaces such as trenching, tunnelling, and commercial diving. The Branch promotes compliance with the Act and its regulations by such means as inspections, investigations, consultations and prosecutions.

Since our last audit, the Branch has undergone a major restructuring and was covered by a major inquiry by G.G. McKenzie and J.I. Laskin. Their report issued in 1987, reaffirmed the Ministry's approach to the enforcement of legislation and support of the Internal Responsibility System (IRS). Under this system, the primary onus for compliance with the Act rests with employers and employees.

On July 1, 1991 the Ministry of Labour underwent a major reorganization which management feels will address many of the concerns identified during the audit. In the new structure the Act is administered and enforced through a regional organization headed by six area directors and supported by the Health and Safety Technical Support Branch.

COMMENTARY

RESULTS MANAGEMENT

In September 1988, Management Board introduced a new directive on program effectiveness entitled "Results Management". The purpose of this directive is to increase the awareness of the need for ministries to continuously evaluate the effectiveness of their programs.

Results Management is an ongoing monitoring and reporting process requiring ministries to:

- set clear objectives and targets to meet those objectives;
- monitor whether these targets are being achieved efficiently; and
- periodically evaluate the relevance of ministry programs, objectives and targets.

Program Effectiveness Measures Not Satisfactory

The primary objective of the Branch is:

> "To reduce the risk of illness, injury and death in the construction, commercial diving and window cleaning industries, by ensuring a healthy and safe occupational environment throughout the Province of Ontario."

3.9 cont'd

While this mandate sets out the direction of the Branch, its comprehensive nature makes it difficult to develop useful, clear, and accurate targets to measure the attainment of this objective. In particular there are many factors beyond the control of the Branch which influence its ability to reduce accidents in the Province. For example, the attitude of employers and employees toward health and safety issues is an important factor in the reduction of accidents. In addition, other organizations, such as the Workers' Compensation Board and the Construction Safety Association also have an impact on the reduction of accidents.

The interrelationships of the various programs and activities of these organizations make it extremely difficult to measure the actual effect that Branch activities alone have had on the reduction of accidents. However, the collective effort of the Branch and the other organizations have had a positive effect on the reduction of accidents in the province over several years, as evidenced by injury statistics produced by the Construction Safety Association.

Despite the inherent difficulties in measuring the Branch's impact on accidents, we concluded that the Branch's reporting system could better measure and report on the program's effectiveness. **The measures and targets used by the Branch, while providing useful information on the program's activities, were not effective in measuring the impact of the program on the work environment**. For example, such measures as: the number of site inspections completed in a period; the number of investigations performed; total orders issued; and, the number of prosecutions completed, were more representative of measures of operational performance than measures of program effectiveness.

To be effective, the measures must relate directly to Branch activities. The main activities used to meet the Branch's objectives are:

- enforcement of the Act and Regulations;
- promotion of the Internal Responsibility System (IRS); and
- education/awareness of key health and safety issues.

We suggested that for each of these activities, the Branch develop targets which could be monitored and reported upon. For example, measures for the enforcement activity could include targets set for the:

- percentage of compliance to the Act and Regulations by active high risk worksites, or constructors;
- reduction in the number of high risk worksites or constructors; and
- reduction in specific types of loss time injuries or accidents.

Such targets would allow the Branch to allocate resources more efficiently and to monitor its ability to achieve targets and thereby aid in reducing accidents through enforcement. This integration of results information into the decision making process would also assist in providing greater management direction to the program.

3.9 cont'd

The Branch has previously used such methods informally, to successfully target and monitor such hazards as: falls due to lack of guardrails and fall arrest systems; trench collapses from faulty shoring; and accidents from poorly constructed scaffolds. However, the base used in setting these informal targets was derived from information on fatalities, which only represent a small portion of the incidents at worksites, and are generally beyond the Branch's control.

We suggested that a more appropriate base would be information on accidents or lost time injuries. While the existing information system was inadequate for the collection of such data, information of this type was available from the Workers' Compensation Board (WCB). This information could provide a strong base from which to develop targets and perform trend analysis. The Branch already recognized the value of WCB information, and had used it to identify 40 of the worst health and safety offenders in the Province.

UTILIZATION OF RESOURCES

The administration of the *Occupational Health and Safety Act* is guided by the Act's underlying philosophy of self-compliance, known as the Internal Responsibility System (IRS). As noted previously this philosophy places primary responsibility for the control of occupational risks with those who are most affected by such risks: the employer, the site supervisor, and the employee. The success of the system is contingent upon the commitment and the awareness of responsibilities by these individuals, and, to some extent, the presence and the support of this concept by ministry personnel in the work place.

The Branch enforces and promotes the IRS by such means as routine inspections of construction projects, prosecution of violators, and consultations on safety issues with constructors, construction workers, industry sectors, labour management groups, and the public.

Controls over Staff Utilization

The Branch had methods in place to manage its staffing cost. However, we noted several deficiencies that affected the Branch's ability to efficiently utilize its inspectors and their activities. These areas included:

- lack of workplans prepared by inspectors and approved by management to direct their activities in the most efficient manner;
- lack of controls to ensure that all priority projects were inspected; and
- lack of controls surrounding the timing of inspections to coincide with periods in which the highest potential for risk of injury exists at worksites.

3.9 cont'd

Work Plans Not Prepared

Work plans are the planned scheduling of work activities by inspectors for the near future (i.e. weekly). Branch policy places responsibility for such planning on the inspectors in consultation with their manager.

We found that few inspectors prepared work plans. Of those inspectors who did prepare work plans, none were reviewed by their managers.

The only method used by managers to ensure adequate coverage of projects was an after the fact review of the inspectors' weekly running sheets (weekly time summaries). While this method allowed managers to provide some measure of guidance to assist inspectors, it was of limited value as inspectors normally would not be returning to the same site or area for some time.

We felt that inspectors should be able to estimate when sites should be re-inspected and therefore be able to prepare work plans for routine inspections of ongoing projects. We recognized that workplans could not be static and would change as incidents arose. However, where variance between actual inspections and the workplans occurred, explanations should be provided and changes made to future plans.

Priority Projects Not Inspected

Branch policy requires criteria to be used in determining the priority and frequency of inspections. For example:

- size of project and workforce;
- outstanding and previous orders issued;
- type of hazard and degree of risk associated with a specific site;
- complexity of project;
- presence of designated substances; and
- effectiveness of health and safety representative or committee.

The size of the project and workforce criterion has a major impact on prioritization of inspections. **We reviewed a representative sample of files and found, however, numerous cases where sites which met the size of project and workforce criterion were not inspected.** For example, of the 370 inspection files audited, 85 had not received an inspection. Of these 85, almost half were projects valued greater than one million dollars.

No System to Identify Repeat Offenders

One of the most effective methods of proactive work is the targeting of repeat offenders. Repeat offenders are those individuals, constructors and supervisors, that continually violate provisions of the Act and its Regulations. Disregard for legislation and for the safety of workers lead to accidents.

3.9 cont'd

However, during the period under review, the Branch had no system in place to identify repeat offenders. Instead it relied on the experience of individual inspectors to identify problem areas. As a result, with the exception of follow-up actions taken by individual inspectors, important proactive work such as consultations with the offending companies and more frequent and rigorous inspection of their projects, was not being done.

Timing of Inspections Can Be Improved

Inspections should be planned to ensure that they take place when the greatest amount of activity or risk of injuries exists at the various worksites. The McKenzie-Laskin Report recommended:

> "The regions should be provided with the capability to analyze accident and injury trends for each workplace, to identify problematic establishments, and to schedule and target inspection visits."

Our discussions with managers indicated that the highest risk of injuries occurs during the first 50 per cent of a site's completion. **However, our audit of inspection files found that 88 of the projects tested did not receive an inspection during this period.**

On the other hand, we found a number of inspections on inactive sites.

The opportunity exists to develop a system to plan inspections during the first half of construction by using such information as the description, size and estimated starting dates provided by constructors in Notice of Project forms.

Information Technology

The McKenzie-Laskin Report noted that:

> "The Division's information system and computer technology should be reviewed and modernized to meet the needs of users, consistent with the Division's role and organization.
>
> "Management information systems and information technology must be a high priority in any organization, and particularly, in the Division, where the efficiency and effectiveness of the inspectors is being challenged. Complaints about the inspection process, the capacity to plan workloads, and access to timely and accurate information, are all symptoms of an underlying problem—inadequate management information systems and information technology."

This problem of "inadequate management information systems and information technology" continued to exist at the time of our audit. The principal recommendation made by the report regarding information technology has never been fully implemented. **For example, the Branch had not fully developed or utilized a computerized data base.**

3.9 cont'd

Under the existing manual system, all Project Inspection Reports were filed by project with no system of cross referencing to identify various projects controlled by a specific constructor. Different project files by the same constructor may have been located at several district offices, each corresponding to the district in which the project was located. Thus it was impossible for the Branch to determine whether similar contraventions had occurred at various sites under the control of the same constructor, whether it be within a district, or across the Branch.

As previously noted, the Branch has used as an alternative, WCB's system to identify the 40 worst safety offenders in the Province. However, the information provided by this system was usually one year behind, and was solely based on accident claims. Therefore its usefulness to the Branch for the performance of proactive work was limited.

The lack of a computer data base limited the ability of managers to monitor inspections. Under the existing manual system, the determination of risks of projects, the stage of completion of sites, and the ability to provide input on the scheduling of inspections required managers to review individual project inspection files. This was both time consuming and ineffective.

One district office was able to overcome this problem by developing a manual log on projects. This manual log served the function of a data base by listing the inspections made at a site and identified both the stage of completion and date of the inspection. However, updating this log was both slow and tedious and therefore limited its effectiveness.

We observed that minimal computer technology was available in district offices and no computers were being used in the field. Many of the activities of the Branch continued to be completed on a manual basis.

We were informed by management that a new Ministry-wide information system was being developed and as of July 1, 1991 phase one of the three phase system was being implemented. Full implementation of the system will take several years.

HUMAN RESOURCES FUNCTIONS

In July 1989, the Human Resources Secretariat introduced guidelines for the auditing of human resources management within the Ontario Public Service. These guidelines were used to audit Branch training.

Satisfactory Controls over Staff Training

The McKenzie-Laskin Report was highly critical of the training function, and in particular that of the Construction Health and Safety Branch. At the time of their Report, Branch training was virtually non-existent.

3.9 cont'd

In our review of the training function we found that the main recommendations made in the Report had been implemented, and included:

- implementation of a formal training policy for new inspectors including a formalized six month on-the-job training program;
- development of core courses;
- mandatory testing of participants receiving training courses; and
- ten days annual training for each inspector to upgrade training and professional development.

As a result of our testing we concluded that satisfactory procedures existed for the development, implementation, and monitoring of training courses. For example:

- courses reflected the identified need for which they were developed; and
- training activities supported Branch objectives.

RESPONSE

The Deputy Minister's response included the following comments.

"During the past fiscal year, the Ministry has undergone a comprehensive strategic planning initiative. This initiative has resulted in a new organizational structure which will allow for improved program delivery, a more precise assessment of the Program's effectiveness, and the utilization of advanced information technology to ultimately ensure enhanced client services."

RESULTS MANAGEMENT

Program Effectiveness Measures Not Satisfactory

"The Construction Health and Safety Program recognizes and acknowledges the need for a systematic approach to developing a mechanism to address and continually evaluate the effectiveness of its measures of Program activities. The Program would point out that there are inherent difficulties in developing and implementing this, especially when quantitative measures of program effectiveness are used as a means of achieving its mandate. Part of the difficulty resides in the identification of meaningful measures of program effect which adequately provide a means of assessing program effectiveness. The Program recognizes the variables input by other parties, particularly the synergistic relationships developed between the various organizations contributing to the fulfilment of the Branch's mandate and primary objective."

3.9 cont'd

UTILIZATION OF RESOURCES

Controls over Staff Utilization

Work Plans Not Prepared

"We acknowledge the absence of formalized work plans controlling the activities of inspectors. It has been the practice of the Branch to evoke the concept of self-directiveness in their employees, particularly when assessing workload requirements or pressures, while at the same time maximizing priority inspections by each Construction Health and Safety officer. These inspections are not only based on the individual inspector's knowledge and assessment of the needs of any particular geographic area they are assigned to, but also may be made on the basis of the combination of individual, team inspectorate or management consultations, and the review of the daily incident log, which captures Ministry notification of events.

"Monitoring, to achieve effective time allocation, is accomplished through the continual review of Project Inspection Reports, weekly activity sheets and occurrence reports by the officer and manager. This process not only identifies changing workload requirements, but has allowed for the targeting of various trade sectors when appropriate, management review of the various client needs and inspector activities, and suitable workplace coverage by the available inspector resource base serving that area.

"In accordance with Branch Policies and Procedures, a determination concerning priority assigning of reactive workload was largely determined by Ministry event notification of fatal, critical, minor accidents, occurrences, work refusals and reprisals, in consultation with the District Manager and Inspectorate team.

"In recent years, increasing client demand, the introduction of changing and new legislation, combined with a fairly static Inspector complement have created new operational pressures which have increasingly restricted many of the Branch's initiatives to address proactive workload.

"The Program recognizes the need to continue to develop workplan initiatives which will utilize the new merged Information System, particularly in the context of the Division's Operational Planning."

Priority Projects Not Inspected

"The Branch would point out that 'priority projects' are largely determined on the basis of an assessment of the potential risk(s) associated with the project, and not dollar value alone. Past history of non-compliance by a constructor or knowledge that health and safety control mechanisms are in place on larger construction sites are other factors which are considered when determining the priority of inspection activities. With the implementation of the Ministry's computerized Merged Information System (MIS), the establishment of priorities related to project inspections involving high risk factors will be facilitated more easily and routinely. The Ministry's restructuring has also allowed for the establishment of a new organizational framework within the Ministry which will assist with the ongoing identification and assessment of existing and emerging health and safety risks on construction projects throughout the province."

3.9 cont'd

No System to Identify Repeat Offenders

"The Branch acknowledges that 'targeting of repeat offenders' is one of several options for developing proactive initiatives, and it agrees that the development of more systematic targeting methods is necessary. The targeting of repeat offenders has been developed and incorporated within the MIS; its use will assist in striking an effective balance between proactive and reactive staff assignments."

Timing of Inspections Can Be Improved

"The Ministry has developed (the MIS) to assist with the identification and analysis of accident and injury occurrences and trends affecting its inspection activities. The Branch acknowledges that degrees of risk fluctuate during the life-cycle of various construction project types. Historically, trends identified by the Branch were subsequently monitored through the use of injury statistics compiled on the basis of number and type of occurrences. This monitoring of construction industry trends led to the development of targeted inspections in high risk areas, such as falls, trench cave-ins and electrocutions. By monitoring the incidence of these accidents types and their respective historical trends, targeted programs or 'blitzes' were developed by the Branch to diminish the incidence of these injury types on specific construction projects. For example, . . . by applying this targeting philosophy, the percentage of fatalities involving falls diminished by 5% in one year (1989 vs. 1990).

"Regardless of when most accidents occur during the life cycle of a particular project type, it is expected that the use of the MIS will allow for timely and appropriate inspections and consultations during all phases of construction projects.

"It has always been the position of the Branch to apportion its operations activities to include proactive initiatives whenever possible, particularly during the initial stages of complex construction projects. Pre-construction meetings, consultations and technical reviews were, and still are, and will be an essential part of the program delivery."

Information Technology

"The Branch acknowledges that the system in use during the time of this audit did not provide enough information to systematically identify repeat offenders, schedule inspections to coincide with risks at workplaces, and to efficiently utilize available resources.

"However following the identification of these shortcomings by the Branch the Operations Division, in consultation with other former line branches, implemented . . . the Merged Information System effective July 1, 1991. This milestone was marked by the systems development, associated training, and the gathering and input of data in the system (Phase 1). The existing 'Prosecution Tracking System' (an ORACLE software-based order and prosecution tracking system) was initiated in the Branch in 1988, and it continues to serve as a basis for the development of the prosecution component of the MIS for the entire Ministry. Implementation of the MIS Prosecution Tracking Subsystem is scheduled to occur in Phase III.

Labour
Employment Standards

3.9 cont'd

"The MIS will enable all Ministry staff to perform their duties and serve their clientele in a more informed and knowledgeable manner, and provide better, more efficient service to the industry.

"The MIS is end-user oriented, and will ensure better client service by systematically and more accurately determining workload requirements, targeting of inspection activity, and instantaneous information sharing between all levels of Ministry personnel.

"Phase I of the MIS began on July 1, 1991 and Phases 2 and 3 are scheduled to be implemented in 1992 and 1993 respectively."

3.10
Effectiveness Measures and Resource Utilization, Employment Standards Branch, Ministry of Labour

The Employment Standards Branch of the Ministry of Labour administers and promotes compliance with the *Employment Standards Act* (Act), participates with employers and employees in the development of wage rate and conditions of employment schedules under the *Industrial Standards Act* and administers fair wage schedules for government contracts. The Branch had expenditures of $12.2 million for the 1991 fiscal year.

SUMMARY

SCOPE AND OBJECTIVES

Our audit included discussions with Branch officials and staff, visits to six of the ten regional offices and a review of 360 completed investigations.

We assessed whether:

- a satisfactory system existed for the measurement and reporting of program effectiveness;
- resources were utilized efficiently; and
- staff training was adequate.

CONCLUSIONS AND FINDINGS

RESULTS MANAGEMENT

An unsatisfactory system existed for the measurement and reporting of program effectiveness. Targets established related more to staff productivity than to program effectiveness.

UTILIZATION OF RESOURCES

Utilization of resources was unsatisfactory.

3.10 cont'd

- **The Branch had virtually abandoned routine inspections despite their effectiveness in uncovering violations.**
- **Audit procedures were frequently not extended when violations of minimum standards of employment were found.**
- **Prosecutions had been virtually non-existent, creating little incentive for employers to voluntarily comply with the Act.**
- **Claimant investigations were not completed on a timely basis, taking an average of 85 days to resolve.**
- **Some claims were given priority status even though it was not warranted.**
- **Computer and communication technologies were inadequate in the regional offices.**

HUMAN RESOURCE FUNCTION

We found that the training of staff was inadequate.

BACKGROUND

The major activity of the Branch is the enforcement of the *Employment Standards Act*. This Act and its Regulations establish minimum standards of employment, covering wages and working conditions such as: minimum wage, overtime, equal pay, vacation pay, pregnancy leave, termination notice and severance pay. The majority of the Ontario workforce rely on the Act and its enforcement for protection of their employment rights.

The Branch promotes compliance with the Act through the investigation and resolution of complaints, branch initiated inspections and public education. These services are provided by ten regional offices located throughout Ontario.

On July 1, 1991 the Ministry of Labour underwent a major reorganization which management feels will address many of the concerns we have identified. In the new structure the Act is administered and enforced through a regional organization headed by six area directors and supported by the Employment Practices Branch.

Labour
Employment Standards

3.10 cont'd
COMMENTARY

RESULTS MANAGEMENT

Measuring and Reporting of Program Effectiveness Unsatisfactory

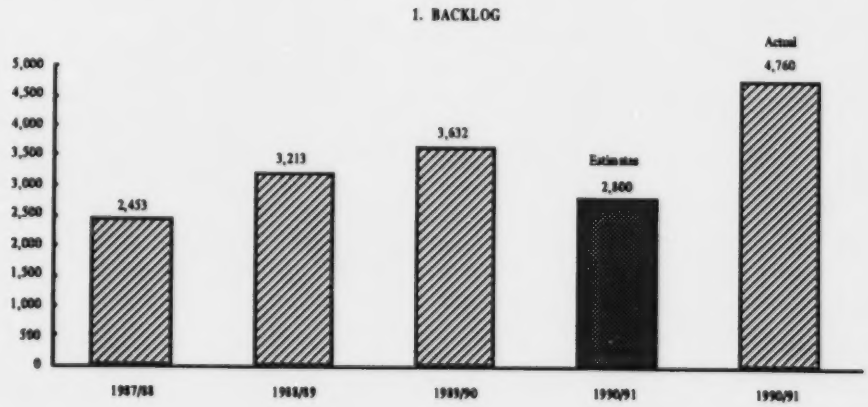
The onus for compliance with the *Employment Standards Act* rests with employers. As a result, the Branch cannot be expected to detect all employer violations of the Act but can only develop actions to minimize non-compliance.

In order to measure the Branch's ability to "promote compliance" with the Act, the Branch requires targets which show whether employers are complying with the Act and, specifically, the impact of the Branch's activities on compliance. However, **the statistical information produced by the Branch was more like a detailed analysis of investigations conducted than a measure of compliance with the Act.**

A major production target used by management was the number of file closures per day, per officer. However, this measure provided no indication of employer compliance. A reduction in the percentage of violations found during routine investigations would have been a more appropriate target. This measure could then have been monitored to give the Branch an indication of their success in promoting compliance.

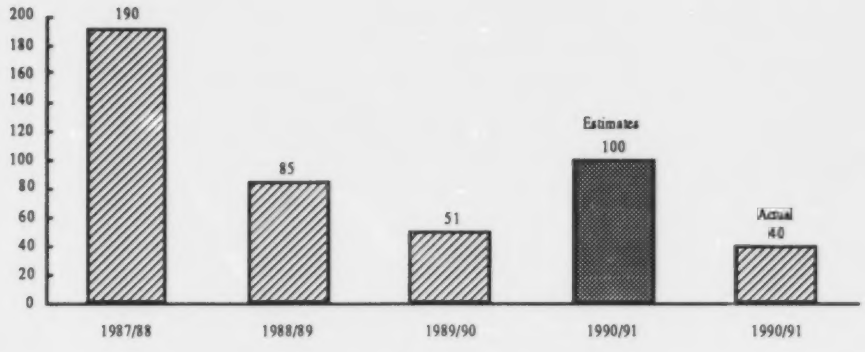
The statistics produced provided some evidence of the nature and extent of non-compliance. However, no effort had been made to extrapolate these results over total employer segments to determine whether overall compliance was fluctuating. Without this type of information, the Branch was not able to allocate its resources to those areas which could have had the greatest impact on compliance.

In the 1990-91 Estimate submissions, Branch staff had set targets for case completions, case backlogs and routine inspections. The first graph indicates the pressure on the Branch to resolve claims on a timely basis. The second graph indicates the decrease in proactive enforcement.



3.10 cont'd

2. ROUTINE INSPECTIONS



As indicated by the 1990-91 actual results, the targets were unrealistic and were not close to being achieved. We found that Branch management was not aware of these targets and thus they were not monitored or used in the management of Branch activities.

UTILIZATION OF RESOURCES

PROACTIVE ENFORCEMENT

The Branch proactively enforces the *Employment Standards Act* by conducting routine inspections of employers, auditing payroll records beyond those of the particular claimant, and through public appearances.

The Branch had completed the following work over the past three fiscal years:

	Fiscal 1989	Fiscal 1990	Fiscal 1991	Total
Claim File Completions	18,312	19,027	18,582	55,921
Routine Inspections	85	51	40	176
Audits Beyond the Claimant	1,795	1,768	1,563	5,126
Public Appearances	225	222	253	700

Claim file completions relate to the investigation and resolution of claims filed by employees alleging a violation of the Act by their employer. A violation is found to exist in about 70 per cent of the claims. However, 95 per cent of employees only file a claim when they are no longer working for that employer. There are many reasons why employees will not come forward, the most common being the fear of losing their

3.10 cont'd

job in retaliation for filing a claim. Therefore, many employees rely on proactive enforcement of the Act to identify and deal with violations.

Branch Initiated Inspections Insufficient

Routine inspections include random audits of high risk employers and follow-up inspections of those who have had previous violations. **Our audit found that the Branch had virtually abandoned routine inspections due in part to a shortage of resources.** As indicated in the foregoing table, routine inspections represented a very small element of the Branch's activities.

However, **when targeted inspections were conducted they had been very effective, uncovering violations in 50 per cent of the cases.** While high-risk employers were normally targeted, the high percentage of violations discovered strongly confirmed the likelihood of non-compliance with the Act by employers in this category.

Stronger Enforcement Needed

If a violation is found during an investigation there are two types of audits that can be done beyond the claimant's file:

- A test audit, which requires the field officer to check the payroll records of three employees for three months to determine what further review is required.
- A full audit, which requires the officer to check all employee payroll records for the last two years in order to make a complete assessment of that employer.

The purpose of these audit procedures is to determine if other employees should also benefit when a specific violation is found, or if the employer is in violation of other conditions of employment.

Branch policy requires that:

- evidence be kept on file to support test audits, so that regional managers can ensure that they have been adequately performed; and
- audit procedures beyond the claimant be performed for minimum standard claims such as minimum wage, overtime and public holiday pay.

We reviewed 360 claim files at six of the ten regional offices. We noted the following:

- 37 of these claim files indicated that a test audit was conducted but only 18 had evidence in the files to support the work done.
- **97 of the files examined contained minimum standard claims but only 36 were audited beyond the claimant.**
- Only one region visited was consistently auditing beyond the claimant.

3.10 cont'd

This action was very effective. For example, we observed that 13 of 18 audits resulted in 137 additional employees benefitting by over $31,000. In the other five regions, we were informed that Branch audit policy was not followed due to a lack of resources. Large backlogs of files to be investigated pressured the regions to just service the claims as quickly as possible.

We also noted that officers used the telephone to try to resolve all potential violations of the Act. Telephones are often an efficient method to close files but they are clearly inappropriate in the case of minimum standard violations. For example:

- An officer investigating an overtime violation could have quickly resolved the file over the telephone by accepting the employer's offer to pay 30 employees a total of $9,000 for overtime owing. However, the officer visited the employer and conducted a full audit resulting in payments to 102 employees totalling $75,000.

PROSECUTION UNDER THE ACT

The Act provides for penalties of up to a maximum of $50,000, but prosecuting employers is a costly and cumbersome process and provides no guarantee that penalties will be collected. However, a certain level of prosecution will support enforcement by:

- promoting voluntary compliance with the legislation;
- deterring repeat and flagrant violators; and
- informing the public of their rights and obligations under the Act through media coverage.

Prosecution Rate Inadequate

Prosecution of employers under the Act had been virtually non-existent. Over the past three years violations were found in 38,915 claim files, but only 70 prosecutions of employers were pursued, resulting in 44 convictions.

We found during our audit that:

- employers were not prosecuted for repeat or flagrant violations of the Act unless they were also refusing to pay an outstanding Order-to-Pay. If the Order was settled the prosecution was withdrawn;
- officers were reluctant to recommend that an employer be prosecuted because they felt that the Branch would never pursue it. Therefore, no procedures were available to effectively deter repeat violators from continuing to disregard the legislation; and

Labour
Employment Standards

3.10 cont'd

- there was no system in place to identify, or track for prosecution, employers who repeatedly violated the Act. Also, claim files were only kept for two years which made it more difficult to build a strong case for prosecution, especially when no tracking system existed.

Although many violations did not warrant prosecution, the low rate of prosecution provided little incentive for employers to comply with the Act.

CLIENT SERVICE

Completion of Claimant Investigations Not Timely

	Fiscal 1989	Fiscal 1990	Fiscal 1991
Claim File Completions	18,312	19,027	18,582
Year End File Backlog	3,213	3,632	4,760
Days to Complete a Claim	70	77	85
File Completions Taking over 90 Days	26%	29%	38%

As indicated by the data in the chart, the Branch had been increasingly unable to complete its investigations on a timely basis.

Unwarranted Priority Assigned to Claims

The vast majority of claims are filed in person at a regional office or received through the mail. In addition, some claims are initiated by a claimant contacting their Member of the Provincial Parliament, the Minister of Labour or the Director of Employment Standards. However, these latter files should not receive any priority over other claims unless the circumstances warrant it. For example, a priority status is reasonable for a claim which may result in the reinstatement of a dismissed employee. Such cases must be investigated as soon as possible because as time passes the potential cost to the employer and employee increases.

During our audit we reviewed 20 files that were received through the aforementioned channels and given priority status over other files. Only three of these files should have been investigated on a priority basis because of the nature of the issues. Furthermore, discussions with officers confirmed that the assignment of special status is usually not warranted.

3.10 cont'd

ADMINISTRATIVE MATTER

Inadequate Computer and Communication Technologies in the Regions

In the Ministry's 1989/1990 Information Technology Strategic Plan, the benefit of further investment in information technology to improve the service provided to the public was clearly noted. The Plan also stated that "the Ministry promotes and supports the concept of end-user computing."

Our audit found that minimal computer technology was available in regional offices and that very few portable computers were used in the field. Many regions were still using manual file logs even though a computerized log had been running for three years in one region.

Discussions with officers identified a need for personal computers to assist in performing daily activities. For example:

- Word processing software would enable officers to create their own correspondence. In some regions it can take up to three weeks to have a letter typed.
- Spreadsheet software would relieve officers of the time consuming task of manually calculating monies owing to claimants.

The Branch also needed to update its communication technology. Electronic communications, such as pagers and portable phones, would allow two-way communication between regional offices and officers in the field. Officers relied heavily on telephone communication in their dealings with the public, but it was very difficult to reach them. Calls to officers at regional offices had to go through a main switchboard which was extremely busy. This was very time consuming and frustrating for the caller. Only one region had installed direct lines and a voice mail system.

HUMAN RESOURCE FUNCTION

An effective training program is critical to ensuring that staff have the necessary skills to meet the current and future needs of the organization. Identification of individual and group training needs is based on the skills and knowledge required for current positions and for developmental purposes. Training is particularly important to officers due to the:

- absence of a procedural manual;
- enforcement of complex and changing legislation; and
- continual interaction with the public.

Labour
Employment Standards

3.10 cont'd

Inadequate Staff Training

While the need to train new officer recruits had been recognized and an adequate introductory course had been given in the past, the course was not offered in the period between October 1989 and January 1991. During this time the Branch hired 20 new officers who were expected to learn their job responsibilities through "hands-on" field experience until the course was eventually offered.

We found that there was no formal system to identify the training needs of established officers. **After they had completed the introductory training, officers were unlikely to receive any formal training from the Branch.** During our regional audits, officers identified a variety of training needs such as:

- methods for analyzing computer payroll systems;
- investigative and negotiating skills; and
- legal interpretations and enforcement procedures for various sections of the Act.

Many officers also lacked adequate training to enforce complex sections of the legislation, such as those relating to pregnancy, Sunday shopping, equal pay and insolvencies. For example, one regional office was holding five equal pay files until someone with the expertise was available to assist them in the investigations.

RESPONSE

The Deputy Minister responded to our audit report.

"As of July 1, 1991, the Employment Standards Program within the Operations Division of the Ministry of Labour replaced the former Employment Standards Branch for which the audit was conducted.

"During the past fiscal year, the Ministry has undergone a comprehensive strategic planning initiative. This initiative has resulted in a new organizational structure which will allow for improved program delivery, a more precise assessment of the Program's effectiveness, and the utilization of advanced information technology to ultimately ensure enhanced client services."

RESULTS MANAGEMENT

Measuring and Reporting of Program Effectiveness Unsatisfactory

"The Operations Division has initiated, as part of its restructuring, a strategic and operational planning process which will form the base of a results management system. This planning process involves the setting of clear objectives and targets designed to meet client needs, and incorporates a review mechanism to monitor client service and program results for achievement of targets."

3.10 cont'd

UTILIZATION OF RESOURCES

PROACTIVE ENFORCEMENT

Branch Initiated Inspections Insufficient

"The Employment Standards Program has been largely complaint driven and field resources have for the most part been devoted to work initiated by increasing numbers of employee claims. The Ministry recognizes the importance of proactive enforcement. A Divisional working group has been formed to develop strategies to address workload management issues both in the short term and incrementally over the long term.

"In order to enhance the effectiveness of proactive enforcement programs, the recently developed microcomputer database on closed files will be analyzed to identify potential violator populations both by industry and by employer size.

"The Ministry is currently developing a minicomputer-based system capable of maintaining employer profiles and histories, and will be used to better target proactive inspections."

Stronger Enforcement Needed

"The Ministry will be undertaking an assessment of means of enforcement. The assessment must examine not only techniques involving full and test audits but also, given limited field resources, other approaches that may be effective in identifying violations and bringing about and maintaining compliance with employment standards legislation."

PROSECUTION UNDER THE ACT

Prosecution Rate Inadequate

"The Operations Division is currently developing a new prosecution policy which will seek to identify those cases where prosecution will be the most effective in both deterring specific offenders and obtaining fines which will serve as a general deterrent to violations of the Employment Standards Act."

CLIENT SERVICE

Completion of Claimant Investigations Not Timely

"The Ministry recognizes that timely service to clients is of utmost importance and has established a Divisional working group to propose measures and develop plans and strategies, both short term and long term, to provide effective and efficient service to clients."

Women's Issues
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3.10 cont'd

Unwarranted Priority Assigned to Claims

"The criteria for giving priority consideration to certain claims will be reviewed."

ADMINISTRATIVE MATTER

Inadequate Computer and Communication Technologies in the Regions

"The need for more information technology within the Operations Division has been identified and incorporated into the Ministry's approved information technology strategic and operational plans, and is currently being implemented within the context and parameters of those plans."

HUMAN RESOURCE FUNCTION

Inadequate Staff Training

"The Ministry is strongly committed to training under its new culture and structure. Training needs for employment standards field staff are being re-evaluated. Also, existing Ministry training resources are now corporate in scope and application, and are now available to employment standards program staff, and will be used to the extent necessary to meet all training needs."

3.11
Effectiveness Measures, Ontario Women's Directorate, Office Responsible for Women's Issues

The Ontario Women's Directorate was established as a central agency within the Government of Ontario to co-ordinate the development, delivery and communication of programs and policies to enhance legal, social and economic equality for women in Ontario. Program and policy recommendations are made through the Minister Responsible for Women's Issues.

For the 1991 fiscal year expenditures totalled $18 million, with about 40 per cent representing transfer and other payments to ministries and local groups.

SUMMARY

SCOPE AND OBJECTIVES

We examined a representative sample of documents and transactions at the Directorate, and held discussions with senior personnel.

We assessed whether:

- the Ontario Joint Family Violence Initiatives program was being delivered by the Directorate and the participating ministries according to plan and within the approved budget;

3.11 cont'd

- funds from the Employment Equity Incentive Fund and Community Grants programs were awarded to projects which met eligibility criteria and were spent by the recipients for the purposes intended; and
- satisfactory systems were in place to measure and report on the effectiveness of these three programs.

CONCLUSIONS AND FINDINGS

We concluded that the Ontario Joint Family Violence Initiatives were delivered satisfactorily by the Directorate according to plan and within the approved budget.

Similarly, we were satisfied that funds awarded for projects under the Employment Equity Incentive Fund and Community Grants programs met eligibility criteria and were spent by the recipients for the purposes intended.

The systems to measure and report on the effectiveness of these three programs were less than satisfactory.

BACKGROUND

The Directorate is involved with government and external organizations, and has a staff complement of about 85. Within government, the Directorate works with individual ministries and agencies to develop policies, programs, and legislation of benefit to women. Outside the government, the Directorate works with women's organizations, business, labour and community groups to produce and deliver programs benefitting women.

COMMENTARY

ONTARIO JOINT FAMILY VIOLENCE INITIATIVES

In April 1986, Management Board approved the Ontario Joint Family Violence Initiatives program. This was to be a five-year Program with three broad objectives:

- to reduce the incidence of wife assault;
- to provide protection for victims of wife assault and support for family-focused services; and
- to provide a co-ordinated network of comprehensive services to effectively utilize community and government resources in dealing with wife assault.

In November 1990, Cabinet approved these Initiatives as a permanent program and changed the name to Ontario Wife Assault Prevention Initiatives.

In 1986, the Program started out with 20 initiatives delivered by nine ministries. Individual ministries are mandated to deliver the funded projects and services under the Program. By early 1991, this Program had grown to 23 initiatives.

Women's Issues
Ontario Women's Directorate

3.11 cont'd

In addition to the funds allocated through the Directorate, individual ministries may contribute funds from their base budgets to support a variety of projects and services related to wife assault. These additional funds and projects are not monitored by the Directorate.

We were satisfied that the Directorate was delivering the Program according to plan and within the approved budget. Procedures were in place for the ministries to report on the services delivered under their initiatives and the related cumulative costs.

Effectiveness Measurement

We noted that there were no procedures to measure the overall effectiveness of the initiatives in meeting the Program's objectives.

Up to the time of the audit, of 23 individual projects and services under the Program only eight evaluation studies had been undertaken. In addition, major flaws in the evaluation process were noted by a consultant in a report prepared for the Directorate in November 1990. The report concluded that:

- The evaluations represented only individual reports on individual programs. They had not been linked to any overall evaluation plan for the initiatives as a whole and its three objectives. Because no overall plan existed for such an evaluation, it is unlikely that an evaluation of the first five years could be more than a summary of the progress, achievements and impacts attributed to individual programs.

- Some of the most significant services, such as the Ministry of Community and Social Services' shelter-related funding, had not been evaluated.

The approval of the Initiatives as a permanent program makes it more critical that the overall effectiveness of the various initiatives and delivery mechanisms be reviewed, to ensure funds are used in the best possible manner.

EMPLOYMENT EQUITY INCENTIVE FUND

The Employment Equity Incentive Fund provides grants to employers in the broader public sector on a cost-shared basis. The purpose of these grants is to accelerate adoption of employment equity initiatives which have been designed to improve the economic status of women and support their participation in the workplace. The broader public sector covered by this program includes school boards, municipalities, hospitals, colleges and universities.

The Directorate co-ordinates the Fund, which is administered by the participating ministries responsible for delivering the program in the broader public sector. The Fund was initially established by Management Board in 1984 for a two-year period, with an allocation of $4.3 million. In 1986, Management Board extended the funding for a further five years for an additional $12.3 million.

3.11 cont'd

Directorate records indicated that from inception to September 1990, the following organizations had participated in the program:

School boards	144
Hospitals	181
Municipalities	30
Colleges	23
Universities	18
	396

Transfer payments totalling approximately $2.2 million were made during the 1990 fiscal year to these organizations. We examined, on a sample basis, funding of $1.5 million provided to municipalities, colleges and universities.

We were satisfied that funds awarded to municipal and college projects met eligibility criteria and were spent by the recipients for the purposes intended. Procedures were in place to ensure proper selection, approval of applications and the reporting by fund recipients.

We were unable to assess whether development grants provided to the university sector met funding eligibility criteria as the supporting documentation was not available at the time of our review.

Measuring the Effectiveness of the Program

In the Management Board submission for funding, the Directorate accepted responsibility for evaluating the effectiveness of this Fund on an annual basis. In memoranda of understanding between the Directorate and participating ministries, the evaluations were to be completed by the ministries.

Under the terms of the funding agreement, the ministries were to receive year-end reports from the recipients to ensure that the projects funded were implemented according to the funding proposals. In addition, organizations were required to collect and submit to the funding ministry, workforce data including gender trends and salary scale, data on competitions (recruitment) and staff development and training.

The ministries were to analyze and summarize this data in annual reports to the Legislature. The data collected was also to be forwarded to the Directorate. Ministries indicated that they were generally experiencing difficulty in collecting data on competitions, staff training and development.

We noted that:

- **The year-end reports submitted by the recipients would not be useful as a means of assessing the effectiveness of the program** since they primarily focused on how the funding was spent on implementing the initiatives.

- Only the Ministry of Education submitted annual reports to the Legislature which provided comparisons and analysis of trends of the workforce data collected. **The Directorate and other participating ministries**

3.11 cont'd

published studies and employment statistics periodically, but these publications did not measure how effectively the program was achieving its objectives.

In March 1988, the Directorate conducted a survey of employment equity program co-ordinators in municipalities, hospitals, school boards, colleges, universities and selected Crown agencies, to capture an overview of the progress made in introducing and developing employment equity programs. The survey also included organizations which were not recipients of grants from the Fund. The survey noted that about 190 of the 245 organizations with employment equity programs started the program after the commencement of the Fund, with the largest number starting in 1987.

However, this survey only provided an indication of the response to the employment equity program. It did not provide sufficient information on which to measure the effectiveness of the program in meeting the program objective of improving the status of women employed in the broader public sector. In the absence of this information and the establishment of minimum achievement standards by the Directorate, there was no basis for monitoring the impact of continued funding on achieving program objectives.

Staff at the Directorate also prepared a "Report on the Activity Review of the Employment Equity Incentive Fund" in March 1990. The purpose of this review was "to determine whether the program is achieving its objectives and what improvements could be made in the delivery of the program". Although this review concluded that, for the most part, the program was achieving its objectives, the methodology was not based on collaborating evidence from quantitative analysis of employment data trends over the funding period, but relied primarily on information from the 1988 survey and from interviews with Fund administration staff at participating ministries.

Subsequently, the Directorate started to prepare a report on the status of women in the broader public sector. Although this project was in abeyance, officials indicated that a summary report will be prepared on the Fund at the end of the funding period in March 1992.

We acknowledged that the Fund was a multi-year program and that the ultimate outcome of the program could not be evaluated until the end of the funding period. However, intermediate results during the period should have been assessed for effectiveness by the participating ministries as originally agreed to in the memoranda of understanding between the ministries and the Directorate. This would have helped program administrators assess whether any changes were needed in the delivery of the program, and ensured that funds were used in the best possible manner.

COMMUNITY GRANTS

The Community Grants program is intended to address issues in the categories of employment equity, violence against women, sex role stereotyping, and poverty. It is aimed at women in various target groups such as immigrant/visible minority, francophone, low income and native women. Projects funded by this program must be completed within one year. Approved projects have been funded up to a maximum

3.11 cont'd

of $24,000 each. According to Directorate records, a total of 507 grants, amounting to $4.1 million, were awarded during the six years ended March 31,1990.

We examined a sample of approved and rejected project files.

We were satisfied that grants were awarded to projects which met eligibility criteria and were spent by the recipients for the purposes intended. Procedures were in place to ensure proper selection, approval of applications and the reporting by grant recipients.

Monitoring of Program Effectiveness

Grant applicants are required to list project effectiveness measures in their application forms and submit a Project Evaluation form when the project is completed. This latter form provides a self-assessment of the extent to which project objectives have been achieved. Given the funding limitations of Community Grants and the limited resources at the Directorate, the Program Evaluation form represents a reasonable mechanism to evaluate project effectiveness and to provide evidence of project completion.

However, we noted that:

- **some of the applicants had not identified effectiveness measures in their applications; and**
- **some grant recipients had not submitted the required Project Evaluation forms.**

Without ongoing monitoring of individual funded projects, the Directorate was not in a position to assess the effectiveness of the program as a whole or to determine whether any changes to the program were necessary.

RESPONSE

The Acting Assistant Deputy Minister of the Ontario Women's Directorate responded to our audit report.

ONTARIO JOINT FAMILY VIOLENCE INITIATIVES

Effectiveness Measurement

"Program evaluation has been made a priority for the coming fiscal year for the Ministry of Community and Social Services which receives its funding directly, and for the other initiatives funded through the Directorate."

3.11 cont'd

EMPLOYMENT EQUITY INCENTIVE FUND

Measuring the Effectiveness of the Program

"Although a survey was conducted by the Directorate and reports issued by Ministries, we agree that additional monitoring features would have been useful. In particular, comprehensive data collection initiatives on the part of all participating ministries would have provided a basis on which to evaluate the status of women. We will be preparing a wrap-up report on the fund at the end of the fiscal year based on available data."

COMMUNITY GRANTS

Monitoring of Program Effectiveness

"The Community Grants program is designed to provide small grants, on average $5,000, to groups who because of their size and lack of sophistication find it difficult to deal with government requirements. We are consulting with community groups on the issue of program monitoring and evaluation, and will be reviewing our monitoring and evaluation requirements to determine what can reasonably be expected from these groups. However it should be noted that with present staff resources comprehensive on-site monitoring will not be possible."

3.12 Sports and Fitness and Recreation Grants, Ministry of Tourism and Recreation

The Tourism and Recreation Operations Program and the Recreation, Sports and Fitness Program provide funding for community recreation, sports and fitness, and capital assistance to municipalities and community organizations. Grants are also awarded to provincial recreation and sport organizations.

In the 1990 fiscal year, program expenditures totalled approximately $93.5 million, of which approximately $59 million were transfer payments to promote recreation and sports and fitness.

SUMMARY

SCOPE AND OBJECTIVES

We audited 14 sports and fitness grants to provincial sports organizations totalling $1.3 million, and 48 recreation grants to municipalities and non-profit organizations totalling $8.3 million. Our audit included visits to four district offices and 25 grant recipients.

We assessed whether Ministry grants:

- were provided for eligible purposes and in accordance with applicable policies and procedures; and
- were used for the purposes intended and in accordance with applicable terms.

3.12 cont'd

CONCLUSIONS AND FINDINGS

AWARDING OF GRANTS

Grants were generally provided for eligible purposes and in accordance with applicable policies and procedures. However, a recreation grant of $664,000 was awarded for a $3.1 million project which lacked sufficient outside funding.

COMPLIANCE WITH GRANT TERMS

While recreation grants were generally used as intended, and in accordance with applicable terms, there was inadequate information available to determine whether sports and fitness grants were similarly used. For example:

- **Some organizations lacked documentation to support the accuracy of their reported expenditures.**
- **The Ministry was regularly funding a higher percentage of the total costs of provincial sports organizations than originally approved.**

OTHER MATTERS

Awarding of small grants to municipalities and recreation base grants for less than $500 should be reviewed.

COMMENTARY

AWARDING OF GRANTS

In the 1990 fiscal year, the Ministry awarded recreation grants totalling $44 million to qualifying municipalities, non-profit organizations, Indian band councils and local service boards. Some of the more common grants were for new recreation facilities, renovations to recreation facilities, and to assist organizations with improved planning and marketing, and increasing participation and research.

The Ministry also provides financial and consultative support to provincial sports organizations. Financial assistance is also provided annually to the Ontario Sports Centre which provides accommodation and related administrative support services to certain sports governing bodies and other related associations.

During the 1990 fiscal year, grants totalling $11.7 million were awarded to provincial sports organizations and $3.3 million to the Ontario Sports Centre through the Recreation, Sports and Fitness Program.

Recipients must submit a final report by April 30 stating both the actual costs that were eligible for each sub-grant and the amount spent during the previous year. The report must also indicate how the funds were spent, and whether the goals were met. Any funds not used for the purposes intended are required to be returned to the Ministry.

3.12 cont'd

Before awarding grants, Ministry staff ensured applications met Ministry guidelines. **We found that grants were given only for projects that had been properly assessed based on the Ministry's selection criteria.**

Projects Financially Viable

A critical part of the review and approval of capital grant applications is ensuring that the project has the necessary financial backing to be completed. Once an organization has spent the grant funds received, the Ministry could find it difficult to recover its funds if a project was not completed.

Recognizing this, Ministry guidelines state that applicants who plan to finance the remaining portion of capital cost by any means of indebtedness "must demonstrate the ability to carry the ongoing costs of repayment of principal and interest by providing a planned budget for the retirement of such indebtedness."

We found that, before awarding a grant, the Ministry generally did ensure that projects were financially viable. However, there was one exception in the projects we reviewed. **In January 1989, a recreation grant of $664,000 was awarded to assist in the construction of an arena. The total estimated cost for the arena was approximately $3.1 million** with an estimated completion date of September 1989. In reviewing this grant, we noted that:

- The donations forecast in the grant application appeared to be overly optimistic. Although this non-profit organization had raised approximately $200,000 in each of the previous three years, there was no evidence it would achieve its goal of raising the approximately $2.4 million needed to pay the debt incurred during construction, plus any accrued interest charges.

- One factor that influenced the Ministry to approve the grant was a letter of intent from a bank indicating it would lend $1.7 million to the organization. We were advised by Ministry staff that they interpreted this to be a firm commitment. That was not the case, and the bank subsequently only advanced $1 million.

  Accordingly, **construction had basically stopped until additional financing could be obtained**. The estimated total project cost has increased to $4.2 million, partly because of the roof collapsing in August 1989. Further, the fund-raising campaign was well behind schedule.

The recipient still intends to complete this project. However, we understand that this will only be accomplished if an additional $650,000 is obtained. As of August 12, 1991, this funding was still not in place.

COMPLIANCE WITH GRANT TERMS

Monitoring to Ensure Grants Used for Eligible Purposes

The Ministry requires provincial sports organizations to keep and maintain all records, invoices and other documents relating to a grant for a period of three years.

3.12 cont'd

While the Ministry's sports consultants reviewed final reports to ensure that funds had been used for eligible purposes, there was no process in place for reviewing the records of the organizations. The consultants generally accepted that amounts reported were substantiated and accurate.

We reviewed the accounting records of five sports organizations and found **it was not possible to determine whether grant funds were used for eligible purposes**. Generally, **the accounting records lacked sufficient details** to relate expenditures to specific sub-grants. Compounding this problem was the fact that four of these organizations could not verify for us how they spent their grant funds. For example, one organization, which received grants totalling $66,000 for athlete development, could not provide any invoices or other documentation to indicate that the funds were used for the purposes stated in the final report. We were advised that the records had been misplaced.

Poor accounting records at provincial sports organizations was also identified as a concern in our 1986 audit of the Ministry and in a 1988 audit performed by the Ministry's Internal Audit Branch.

Higher Percentage Funded By Ministry

Along with their annual budgets, provincial sports organizations submit a detailed listing of planned activities. The grant amounts awarded by the Ministry are usually significantly lower than requested. This could encourage organizations to submit inflated budgets.

While the organizations seldom completed all the activities budgeted, they were not required to repay any funds to the Ministry unless the amount spent was less than the grant provided for a particular category of expense. There was also no requirement that the percentage of Ministry funding be maintained at the same level as was approved. Ministry staff indicated that they were also concerned that **the percentage of costs funded by the Ministry was usually higher than originally approved**. For example, for the 1990 fiscal year:

- One sports organization submitted a budget of $261,000 to fund eligible activities. This organization requested a grant of $149,000 from the Ministry. However, the Ministry, after reviewing the application and having discussions with the organization, approved a grant of $74,000, or approximately 30 per cent of estimated expenditures.

  The organization ultimately only spent $149,000 on eligible activities. This was primarily because the organization did not complete all the activities budgeted. However, no funds were required to be returned to the Province. Therefore, the Ministry actually funded about 50 per cent of this organization's eligible costs.

- For fiscal 1990, another sports organization submitted a budget of $721,000 to fund eligible activities, and requested a grant of $371,000. However, while the Ministry awarded $246,000, or about 35 per cent of estimated expenditures. The organization spent only $249,000 on eligible activities. For example, while

3.12 cont'd

the organization budgeted $213,000 for championship travel, it spent only $38,000 because some expenses were covered by its national organization.

Although the organization repaid $73,000, in the end the Ministry funded approximately 70 percent of this organization's eligible expenses.

In addition, it was not possible to determine whether funding provided had achieved the desired results. At the time of our audit, there was no requirement for organizations to submit a revised annual plan after the amount of the approved grant was known. Therefore, there were no specific details as to what would be accomplished with the funding provided by the Ministry.

OTHER MATTERS

Insignificant Recreation Program Grants

Regulations under the *Ministry of Tourism and Recreation Act* stipulate that grants be awarded to municipalities, Indian bands, and local service boards to assist in financing recreation programs. During fiscal 1990, there were approximately 900 grants awarded totalling $5.1 million.

The amount of each grant is based on a percentage of approved recreation costs, up to a maximum based on population size and available funding. These amounts have not been revised since at least 1984.

Particularly where the population exceeds 25,000, the amount of each grant is insignificant when compared to the total recreation expenditures of most recipients. For example, in 1990 three cities with populations over 250,000 each received a grant of only $5,820.

In fiscal 1990 the average grant was approximately $5,700. Since many of these grants were insignificant, **we recommended that the Ministry review whether these regulations should be revised**.

Insignificant Recreation Base Grants

During fiscal 1990, recreation base grants totalling $375,000 were awarded to 88 small community organizations. We noted that 29 of the grants were for less than $500. One grant was for only $28.

Considering the cost to the Ministry to process individual grants, **we recommended that the Ministry consider establishing minimum amounts for grants**. The Ministry's internal audit branch has also reported that the Ministry awards a large number of small grants which are costly to administer.

3.12 cont'd
RESPONSE

The Deputy Minister of Tourism and Recreation responded to our audit report.

AWARDING OF GRANTS

Projects Financially Viable

"We disagree with the conclusion drawn about the [grant of $664,000 awarded to assist in the construction of an arena].

"Ministry staff conducted a thorough review of the application. The audit report portrays the project as an exception to Ministry practice of supporting financially viable projects.

"Our disagreement is based on the following:

- *A feasibility study was completed indicating need for the facility, and contained support from surrounding municipalities.*
- *The client had completed a fund-raising strategy. This combined with their track record of fund-raising and their integrity, in our assessment, indicated their ability to raise the required funds.*
- *The report questioned our acceptance of a 'letter of intent' from a bank to finance the project. The letter of intent, worth $1.7 million, was based on a collateral mortgage on the existing property assessed at $2.5 million. This, combined with the fund-raising strategy, satisfied our needs.*
- *Subsequent to grant approval, two significant events seriously affected the group's ability to proceed:*
  - *First, during construction, roof trusses collapsed. The contractor was found at fault, however a lengthy delay took place and the matter is yet to be settled, resulting in a $500,000 shortfall. This is a significant amount of money for a non-profit group to absorb.*
  - *Second, as a result of the noted delay, the current recession continues to [have an] impact on the group's ability to raise funds.*

"The Ministry is convinced that the facility would have opened on schedule had these two events not taken place.

"The report also stated that construction had basically stopped. In fact, the group should be complimented for their ingenuity and commitment, because the facility is 80 per cent complete, and 95 per cent of prime time has been booked. At no time was construction stopped.

"Staff have monitored this project closely with regular site visits, and this practice will continue until completion. We are satisfied that, although delayed, the project will be completed shortly."

3.12 cont'd

COMPLIANCE WITH GRANT TERMS

Monitoring to Ensure Grants Used for Eligible Purposes

"Ministry consultants are primarily experts in organizational development. They have a general knowledge (specific training on a Ministry-wide basis is compulsory through our Financial Skills Program) of financial management, but do not have the skills to audit the books of organizations. This is therefore not a role that could be appropriately undertaken by Ministry consultants.

"The Provincial Auditor's 1986 report states: 'Now that the Ministry has established an internal audit function, this group could provide the necessary (audit) assurance, both by special request and through an ongoing selection of sports governing bodies.' These types of audits have been conducted on a special request basis, and the Ministry plans to initiate a regular program of PSO audits as part of the Ministry's internal audit plan."

"Provincial sports organizations (PSOs) are required to retain financial records to verify expenditures for three years. The terms and conditions of PSO grants clearly require that this role must be carried out by these organizations. The Ministry has developed and provided to the PSOs financial practices guidelines to assist in delineating the requirements. The new program of PSO audits by the Ministry will be designed to improve compliance with these requirements."

Higher Percentage Funded by Ministry

"Consultants compare the year-to-year requests from provincial organizations to keep applications realistic. Also, a mid-year review process has been put into place to ensure adjustments are made to the plans based on actual approved amounts.

"The review of the entire grant processing detailed above will assist in providing the required system, and will assist in ensuring the percentages are maintained at an appropriate level."

"In future, organizations will be asked to submit a revised plan after the approved grant amount is known."

OTHER MATTERS

Insignificant Recreation Program Grants

"We agree with the recommendation to review... grants [under this regulation]."

Insignificant Recreation Base Grants

"We agree with your recommendation and will review these grants."

Comments on Ministry and Crown Agency Audits

3.13 Municipal Transit Program, Ministry of Transportation

The objective of the Municipal Transit Program is to provide financial and other assistance for transit systems in urbanized municipalities. Program expenditures were $404 million for the 1991 fiscal year.

SUMMARY

SCOPE AND OBJECTIVES

We assessed whether:

- controls over payments were satisfactory and whether municipalities were complying with the terms and conditions of the subsidies; and
- the subsidies were spent economically by the recipients.

We examined the controls and procedures at the Ministry's Transit Office and the Toronto Transit Commission, Ottawa-Carleton Regional Transit Commission and the Hamilton Street Railway. These three municipal transit organizations accounted for approximately 70 per cent of the municipal transit subsidies provided in the 1991 fiscal year.

CONCLUSIONS AND FINDINGS

CONTROLS OVER PAYMENTS AND COMPLIANCE WITH SUBSIDY REQUIREMENTS

Controls over payments were generally satisfactory and municipalities generally complied with the terms and conditions of the subsidies. However:

- **inadequate monitoring by the Ministry resulted in capital subsidies being paid in excess of approved allocations. In one instance the excess was $6.1 million; and**
- **Ministry guidelines did not adequately differentiate between reconstruction and repair. The former is subsidized at a much higher rate.**

REGARD FOR ECONOMY

We concluded that, overall, subsidies were being spent economically by municipalities. However:

- **one organization did not use competitive procedures for any of its purchases relating to transportation of the physically disabled. During 1989 and 1990, these purchases totalled approximately $3.6 million.**

Transportation
Municipal Transit

3.13 cont'd

BACKGROUND

There are three main types of subsidies available to municipalities:

Operating Subsidy

- equals 16 to 25 per cent of the annual operating costs based on municipal population. These subsidies totalled approximately $193 million in the 1991 fiscal year.

Capital Subsidy

- reimburses 75 per cent of eligible capital expenditures including rapid transit construction, rolling stock acquisition (i.e. vehicles) and garage/terminal construction. Payments totalled approximately $171 million in the 1991 fiscal year.

"Transportation For The Physically Disabled" Subsidy

- capital costs are generally subsidized at a rate of 50 per cent, with a guaranteed minimum operating subsidy of 50 per cent of actual net operating cost. For the 1991 fiscal year, these subsidies totalled approximately $32 million.

COMMENTARY

CONTROLS OVER PAYMENTS AND COMPLIANCE WITH SUBSIDY REQUIREMENTS

While **the Ministry's financial controls over subsidy payments were generally satisfactory**, we noted some weaknesses regarding capital subsidies. **Municipalities satisfactorily complied with the Ministry's subsidy requirements.**

Capital subsidies are based on a five-year expenditure estimate provided by each organization.

Transit organizations annually submit a request for subsidy allocation detailing the projects to be undertaken and the funding required for each. After a review of this submission, the Ministry issues a written approval and funding limit for each project. Substitution of projects or expenditures over the limits are not subsidized unless written approval has been received from the Ministry "regardless of whether such items can be accommodated within the original allocation."

Improvements Needed in Monitoring Subsidies

In 1989, one organization received a subsidy of $25.7 million for conventional surface capital (e.g. buses and streetcars) instead of the $19.6 million that was allocated by the Ministry. There was no written approval from the Ministry for the additional $6.1 million.

The Ministry frequently paid a subsidy for specific projects in excess of what had been allocated for those projects. In four of the seven organizations we reviewed at the Transit Office, we identified excess payments for 1989 totalling

3.13 cont'd

approximately $200,000 which had not been approved. The total claimed for these projects was approximately $2.5 million.

Exceptions to Ministry Policies and Procedures

The Ministry does not follow the same procedures in awarding and monitoring the capital subsidies of all transit organizations. We found that, in order to provide one particular organization more flexibility to manage its own program, the Ministry allowed certain exceptions:

- Thirteen of the 16 projects we reviewed, valued at $33 million, did not receive written approval.
- No approval was received from the Ministry to exceed the amount requested for individual projects. In 1989 and 1990, the transit organization claimed and received capital subsidies totalling approximately $22 million for projects which were only allocated $11 million.
- Ministry restrictions prohibiting the substitution of projects approved for funding were not enforced.

  We noted that capital subsidies were claimed for projects where no subsidy had been requested or approved. In 1989, $12.8 million was obtained for 15 different conventional surface projects that were not included in the subsidy allocation requested. Similarly, since 1988, this organization has received approximately $4.4 million for seven rapid transit projects that were not included in any subsidy allocation.

Lack of Sufficient Policies and Procedures

At the time of our audit, **there were inadequate Ministry guidelines to differentiate between reconstruction and repair**. Since repairs are treated as operating expenses and reconstruction is a capital expense, this could result in an incorrect subsidy being paid.

We noted that one transit organization received capital subsidies for projects such as subway track replacements which, based on other similar items, would normally be considered a repair. Accordingly, it would only qualify for an operating subsidy. Track replacement on streetcar routes is only eligible for capital subsidies if it is done in conjunction with roadway reconstruction/repair.

In 1989 and 1990, this organization received $3.3 million more for subway track replacement than it would have if these projects had been subsidized as operating expenses.

Transportation
Municipal Transit

3.13 cont'd

Contracts with Operators

For the contracts with operators at the transit organizations we visited, we noted that at one organization:

- The contract between the transit organization and its supplier of disabled transit services expired in December 1986. During 1990, this supplier received grants and subsidies totalling approximately $4.3 million.

- The supplier of disabled transit services entered into a five year agreement ending in 1992 with a company which provides approximately 60 per cent of the transportation required for the physically disabled. This agreement included predetermined rate increases per passenger trip for each year.

  However, we noted that effective September 1990 the contracted rates were further increased for the balance of the contract. There is no provision for such additional increases in the agreement. Therefore, the company was paid approximately $89,000 more than the contracted rate for the four months in 1990 that the new rate was in effect.

REGARD FOR ECONOMY

Capital Subsidies

The Ministry's Transit manual states that "in acquiring any capital asset to be eligible for subsidy, a municipality must follow the standard purchasing practice of preparing specifications and calling tenders." We sampled 40 capital projects totalling approximately $100 million from the three largest transit organizations **and found that competitive bids were generally obtained.**

Transportation Subsidies for the Physically Disabled

The Transit Manual requires that municipal transit services and equipment be acquired competitively. At two of the three transit organizations we visited, competitive bids were generally obtained.

At the one organization that did not use competitive procedures, purchases during 1989 and 1990 totalled approximately $3.6 million. This included vehicles, taxi services, vehicle maintenance, printing services and a telephone system. We noted that the other two organizations we visited did obtain competitive bids for similar services and items.

This organization did not have a formal purchasing policy. At a minimum, it should be required to follow the municipality's purchasing policy.

Concerns have also been raised with the Ministry by outside parties regarding the methods used by this organization in selecting these suppliers. We share these concerns. Without a competitive acquisition process, there is no assurance that the costs are reasonable.

3.13 cont'd
RESPONSE

The Deputy Minister of Transportation responded to our audit report.

CONTROLS OVER PAYMENTS AND COMPLIANCE WITH SUBSIDY REQUIREMENTS

Improvements Needed in Monitoring Subsidies

"The Ministry issues project-specific allocations for approved capital undertakings. Frequently, a municipality wishes to make in-year adjustments to these individual allocations—typically to balance increased allocation requirements for advanced projects against lower allocation requirements for those that have not progressed as rapidly as originally forecast. This balancing of project-specific allocations occurs throughout the year, and is more intense during the latter half.

"Other situations requiring in-year allocation adjustments are:

- *early delivery of buses originally scheduled for the following year; and*
- *failure of transit organizations to request allocations for projects approved in a prior year, but which had subsequently been deferred to a following year.*

"By and large, these in-year allocation adjustments were assessed, approved and monitored by the Ministry. However, in certain cases these adjustments were not formally incorporated in a revised allocation letter due to year-end time constraints.

"In recognition of this deficiency, the Ministry implemented the following procedural improvements in 1990:

- *issuance of a pamphlet to transit organizations detailing their obligations in the overall subsidy administration process; and*
- *annual distribution of a report in the latter part of the year detailing the subsidy payment status of all capital projects and requesting each transit organization to advise of their year-end projected requirements.*

"The Ministry will modify and continue to implement the current procedure to provide a clear audit trail of in-year allocation adjustments."

Exceptions to Ministry Policies and Procedures

"Audit findings reflect the result of the Ministry decision to gradually phase in the application of the full approval-in-principle process to the noted transit organization. This was necessary because of the number and complexity of capital projects undertaken by this organization.

"For fiscal 1991/92, the approval-in-principle process has been fully implemented in as much as:

- *this organization submitted at the beginning of the year project sheets for all proposed undertakings;*

3.13 cont'd

- *based on Ministry review, a list of approved projects was produced; and*
- *the organization was advised of those projects not yet approved, and for which additional information and/or a full justification report was required if it wished to pursue approval of these projects.*

"The Ministry also implemented in 1990 and 1991 the following procedures to further improve the monitoring and control of capital projects undertaken by the noted transit organization:

- *Ministry participation in the planning, design and construction phases of selected capital projects;*
- *Ministry review of Capital Project Management System reports submitted regularly by the transit organization; and*
- *periodic meetings with the transit organization to review progress of approved projects and initiation of new projects.*

"The Ministry will continue to increase its monitoring and control efforts regarding this transit organization, and will endeavour to document all in-year revisions."

Lack of Sufficient Policies and Procedures

"Audit findings deal exclusively with the subsidy treatment of rapid transit claims. This area of public transportation is very specialized in nature and limited to but a few transit organizations in the province.

"Prior to producing more detailed rapid transit subsidy guidelines, in a fashion similar to those in place for surface capital items, the Ministry requires a more detailed understanding of rapid transit construction/rehabilitation requirements. Since the last provincial audit, the Ministry has allocated the maximum allowable resources, including some from its regional offices, to increase its scrutiny/management of rapid transit projects. Through such actions, the Ministry's knowledge base and expertise vis-à-vis rapid transit is increasing and, over time, the Ministry will be in a better position to produce proper guidelines.

"The specific example cited involves track replacement. This organization has similar criteria (i.e., track wear) for both surface and subway track to determine what sections of track should be reconstructed. Surface (i.e., streetcar) track replacement projects are generally carried out in conjunction with roadway reconstruction to ensure efficient use of resources. Under both surface and subway programs, projects involving the replacement of less than one hundred linear feet of track, or costing less than $50,000, are considered to be repair undertakings and subsidized as operating expenses."

3.13 cont'd

Contracts with Operators

"The audit comments have been noted, and the Ministry, together with municipal staff, are actively pursuing the development and execution of an appropriate service agreement. Further, the Ministry will allocate sufficient resources to develop and maintain a formal procedure to track the status of all transit organizations' contracts for the delivery of service."

REGARD FOR ECONOMY

Capital Subsidies

"The Ministry will continue its efforts to maintain this achievement."

Transportation Subsidies for the Physically Disabled

"Concerns raised here deal with the practices of the supplier noted in the section subtitled 'Contracts with Operators'. As part of Ministry deliberations with municipal staff regarding a service agreement, concerns regarding lack of tendering and other anomalies will be addressed."

3.14
Monitoring of Employee Expenses, Liquor Control Board of Ontario

The Liquor Control Board of Ontario regulates the sale of liquor throughout the province and operates over 600 stores for the sale of liquor to the public. In the year ended March 31, 1991, sales were approximately $2 billion and the Board remitted $650 million in profits to the Consolidated Revenue Fund.

SUMMARY

During our current year's audit we found that:

- **there were numerous payments of ineligible and questionable expenses;**
- **although an internal audit investigation revealed over $4,000 was paid to an employee for ineligible expenses, reimbursement of only $50 was requested; and**
- **more improvement was needed in the management of vehicles. Some practices were contrary to Government policy.**

Liquor Control Board of Ontario

3.14 cont'd

COMMENTARY

The Board has developed policies to control employee travel, hospitality and moving expenses. Additionally, the Board is expected to adhere to established government-wide policies except where such policies would not be practical given the commercial nature of the Board.

In the 1991 fiscal year, the Board spent approximately $2 million on employee travel, hospitality and moving expenses. We reviewed these expenses and noted several deficiencies.

Ineligible Expenses Reimbursed

Employees are reimbursed for travel, meals and hospitality expenses while on Board business. Employees are responsible for claiming only those expenses which are in accordance with Board policy. It is the responsibility of an employee's supervisor to authorize each claim to ensure that all reimbursed expenses are for legitimate Board business.

We examined expense claims of approximately 20 employees. Below are some examples of ineligible and questionable claims.

- Six managers regularly took their staff to lunch at the Board's expense.
- Expense receipts and explanations were often not provided.
- The Board paid the cost of long service and retirement dinners ($400) and other social events such as a golf day ($80) and a curling bonspiel ($50), including the cost of travel to these events. Government policy states that public funds must not be spent for social events.
- An employee was reimbursed $260 for 900 kilometers of travel while on vacation.

Expense Claim Investigation

In November 1989, the Chairman of the Board requested that the Board's internal auditors investigate allegations that a department head had claimed ineligible expenses. The investigation revealed that the employee had not complied with a number of Board policies. For example, the employee:

- had not reimbursed the Board for the personal use of a Board automobile including extensive home-to-office travel; and
- had claimed reimbursement for personal meals, bar bills and accommodation.

The ineligible expenses exceeded $4,000. The Board's senior management stated that the employee's actions were inappropriate but requested only a partial reimbursement ($50) for expenses improperly claimed.

Comments on Ministry and Crown Agency Audits

3.14 cont'd

The results of this investigation were reported to the Chairman. However, the Audit Committee was not informed, although the Board's Administration Manual requires the General Audit Department to discuss all completed audits with the Committee. The Manual also requires audit findings that are not resolved satisfactorily to be referred to the Committee for resolution.

Questionable Vehicle Policies

The Board has approximately 50 automobiles, most of which are assigned to employees responsible for the inspection and supervision of the Board's province-wide operations.

In 1989, the Board's internal auditors reviewed vehicle management practices and found that adequate controls were not in place to ensure that vehicles were utilized effectively and in the most economical manner. The auditors made several recommendations for improvement, most of which were adopted. However, our current review revealed that the Board had not implemented two of the recommendations:

- that all drivers maintain a vehicle travel log to enable the Board to maintain control over the use of Board vehicles and ensure that personal use was properly accounted for. We found no evidence that any of the Board's employees maintained a log book. Government policy requires that a proper record of all vehicles be maintained; and

- that personal use of LCBO vehicles be prohibited on non-business days. However, the Board continued to permit such use on condition that employees reimbursed the Board.

The amount reimbursed by employees (approximately $20,000) for personal mileage was unusually low. For example, the employee investigated by internal audit had travelled 27,000 kilometers in the 1990 calendar year but had not reimbursed the Board for any personal mileage. This employee regularly travelled between his home and the office in a Board car. We could not conclude whether this was a common problem because, as noted earlier, employees did not maintain travel logs.

RESPONSE

The Chair and Chief Executive Officer of the Liquor Control Board of Ontario responded to our audit report.

Ineligible Expenses Reimbursed

The response included these comments on expense claim examples:

- *"We are reviewing our policies on working lunches and propose to introduce procedures to ensure that only infrequent business related working lunches will be paid for from Board funds.*

3.14 cont'd

"Where in the opinion of the Board there is productive use of time through the vehicle of working lunches, the LCBO will support this practice through policy."

- *"Our Administration Manual already states that all receipts are to be provided, where required. However, instructions will be issued to persons authorizing expense claims to reinforce this requirement and to stipulate that explanations be provided where necessary.*

  "In addition, the expense form will be revised to provide space for business justification and explanations."

- *"For many years it has been the practice to have senior management representation at functions for retiring managers. In areas where it is not practical to have Head Office representatives attend, the District Manager is expected to attend the function on behalf of Head Office.*

  "Consequently, his cost for attending such functions has been allowed and has been established at a maximum of $25 per attendance. Since District Managers are expected to attend such functions for the sake of maintaining good employee relations, it is felt that the expense should not be borne by them personally. The cost of the function itself is not normally paid for from Board funds.

  "Steps will be taken to have this policy formally documented and approved.

  "We agree that these amounts [for a golf day and curling bonspiel] should not have been reimbursed to the employees concerned.

  "An audit of the travel expense claims is currently being performed by our Internal Audit Department. Following the recommendations of that audit, we will adopt appropriate measures to ensure that explicit business expenses only are claimed."

- *"It would appear that a substantial portion of the transportation costs incurred by this employee in travelling to her place of vacation was subsidized by Board funds. We are obtaining from this employee a refund of the amount claimed and propose to introduce procedures to ensure that travel claims of this nature are neither made nor honoured in future."*

Expense Claim Investigation

"In the absence of clear guidelines as to what constitutes personal trips, senior management decided that recovery of certain expenses claimed by the employee would not be appropriate. Subsequent to our Internal Audit investigation, more explicit guidelines have been formulated and are now included in our Administration Manual.

"This being a special investigation rather than an audit of internal controls, the Auditor did not offer any recommendations. We believe any decision taken was related to the performance management process and therefore a management prerogative and responsibility. That is why this special investigation was not referred to the Audit

3.14 cont'd

Committee but was reviewed with the C.E.O. who is also Chairman of the Audit Committee."

Questionable Vehicle Policies

"The 1989 Report of the Board's Internal Auditors was reviewed and discussed extensively by senior management and the Audit Committee of the LCBO. The decision was made to implement the majority of the recommendations from this Report.

"In respect of the two comments in your report, we comment as follows:

- *Log Books: The Board will proceed to insist that all employees maintain travel log books.*
- *Vehicle Use: The Board will also insist that personal use mileage be recorded, reported and reimbursed to the LCBO."*

3.15
Management of Government-Owned Housing, Ontario Housing Corporation

Ontario Housing Corporation (OHC) is the largest landlord in Canada, providing "rent geared to income" housing for over a quarter of a million people. Potential applicants and residents include low-income singles and couples, families, senior citizens, disabled persons with or without support services, battered spouses, and refugees.

SUMMARY

SCOPE AND OBJECTIVES

We assessed whether:

- the management information system was providing timely and relevant information for decision making and performance assessment;
- maintenance projects and services were undertaken in a cost-effective manner and in accordance with established policies;
- rent was properly determined and collected on a timely basis; and
- established policies resulted in equitable and effective placement of tenants.

Our audit included the Corporate head office and five local housing authorities (LHAs) representing about 54 per cent of the total units owned and managed by OHC.

Ontario Housing Corporation

3.15 cont'd

CONCLUSIONS AND FINDINGS

MANAGEMENT INFORMATION AND REPORTING

Despite significant expenditures and effort, the Corporation's management information and reporting systems remained less than satisfactory.

MAINTENANCE PROJECTS AND SERVICES

Corporate policies for the acquisition of goods and services for major projects were satisfactorily adhered to. However, cost effectiveness could have been improved. For example, several projects were significantly delayed because:

- **contractors were not adequately monitored, evaluated and sanctioned; and**
- **some projects were not well planned and co-ordinated.**

Adherence to corporate policies and procedures was less than satisfactory for recurring maintenance services. These policies and procedures were not adequate to determine whether maintenance services were delivered in a cost-effective manner.

- **Efforts to measure and report on the timeliness of maintenance services had not yet been successful.**
- **Indicators and standards had not been implemented to assess maintenance efficiency among LHAs.**
- **Purchasing policies and procedures were not met satisfactorily for smaller projects.**

RENT REVENUE

We were satisfied that rents geared to income were properly calculated based on information provided by tenants, and that rents were collected on a timely basis. Nevertheless, we found that:

- **income verification efforts were weak and inconsistent both among and within LHAs;**
- **rent increases were unusually low in Metro Toronto. In particular, rent increases for projects managed by a private management company were low relative to similar OHC-managed projects; and**
- **inconsistent treatment of higher income tenants has produced inequities.**

3.15 cont'd

TENANT PLACEMENT

There was some question whether corporate policies and agreements for placing tenants in housing units resulted in equitable and efficient placement of tenants.

- **Policy did not require time spent on the waiting list to be considered as a factor in placement decisions.**
- **Other housing providers were not placing needy tenants from OHC's waiting list as intended as a condition of government funding.**

BACKGROUND

The Corporation's portfolio contains about 84,000 units, which are managed by 56 LHAs reporting to six regional offices of the Ministry of Housing. LHAs are "Schedule III" agencies, established by Order-in-Council, which are responsible for the day-to-day management of OHC's portfolio under specific management agreements which set out the responsibilities and operating authority of the LHAs. Each LHA also reports to a board whose members are appointed by Order-in-Council, and include community and tenant representation.

In 1990, monthly operating costs averaged about $600 per unit, while tenant rents averaged about $250 monthly. Total annual expenditures for these units amounted to $606 million, while annual rental revenue amounted to $252 million. The net loss on assisted housing is shared equally with Canada Mortgage and Housing Corporation (CMHC).

COMMENTARY

MANAGEMENT INFORMATION AND REPORTING

The OHC must have adequate information and performance standards to monitor the operation of the various LHAs and to demonstrate corporate performance overall. In this regard, the Corporation has undertaken two major initiatives in recent years to improve management information and reporting.

One initiative was the development of an information system called HOMES (Housing Operational Management End-User Service). Another initiative was the establishment of a Management Operation Review Section (MORS). Both of these initiatives have been discontinued.

The HOMES Information System

The HOMES information system was initiated as a result of a decision to merge two planned information systems projects: the Financial Management System (FMS) and the Property Maintenance System (PMS). Both of these projects were approved by Management Board of Cabinet; FMS in April 1986 and PMS in August 1987.

Ontario Housing Corporation

3.15 cont'd

Our review of HOMES revealed that:

- by March 31, 1989 , the Ministry had already spent a total of $5.85 million on FMS, PMS and HOMES. This amount was $1 million more than the total $4.95 million approved for the FMS ($3.3 million) and PMS ($1.65 million). However, as of that date the total project was estimated to be less than 50 per cent complete; only the first of three phases of PMS had been implemented. Subsequent phases depended upon successful implementation of the planned FMS; and

- in June 1989, an external management consultant was hired to evaluate the project. In February 1990 the development of HOMES was discontinued based on the recommendation of the consultant.

Ministry officials indicated that frequent changes of Ministers and senior management at the Ministry of Housing, Ministry of Municipal Affairs and OHC, and the resulting changes in system requirements and priorities—in addition to a lack of senior management experience in managing systems development projects—severely affected the project.

Our follow-up review of the management consultant's report, the PMS portion of HOMES, and a recent submission to the Management Board indicated:

- The PMS portion of the project has not yet been used as intended to improve property management or reduce costs. Staff have not updated the system routinely, so most of the management information it has produced has been unreliable.

- In March 1991, the Ministry received Management Board approval for the Corporate Financial Information System to replace the discontinued FMS at a five-year cost of $5.6 million.

According to the Ministry, several recommendations made by the management consultant for improving the controls over systems development projects have since been implemented.

Management Operation Review Section (MORS)

In conjunction with increased decentralization and devolution of authority to LHAs, OHC established a Management Operation Review Section (MORS) in 1984 to develop a means of assessing the performance of LHAs. The annual costs of MORS from 1985 to 1989 averaged less than $500,000 per year.

"Standards to Success" were developed for 16 performance areas, including measures of revenue, costs, maintenance standards, and tenant satisfaction. These standards were to be used by the individual LHAs to compare themselves over time and compare with their peer group to identify areas for improvement. Specifically, the objectives of the "Standards to Success" were:

- to provide economic operational efficiency;

3.15 cont'd

- to effectively conserve property;
- to foster positive tenant relations; and
- to effectively manage human resources.

In response to a question from the Standing Committee on Public Accounts in 1988, the then Deputy Minister put forth "Standards to Success" as a key management improvement tool, together with an accountability/information system that measured and motivated effective management of social housing projects by LHAs. However, our follow-up of this initiative revealed that the only two reports on the "Standards to Success" were prepared for fiscal years 1987 and 1988. A draft report was in progress for 1989 when the Management Operation Review Section was terminated as of March 31, 1990.

Management indicated that although the "Standards to Success" provided useful management information, the necessary data was expensive to obtain for the benefits derived. As a result of resource constraint, the Management Operation Review Section was eliminated. According to Management, operations are monitored less formally through regular meetings of an Operations Review Committee comprised of senior managers from head office and the LHAs. Individual LHAs are also encouraged to develop their own performance indicators and standards and to conduct tenant surveys. However, we noted very limited performance reporting by the LHAs we visited.

MAINTENANCE PROJECTS AND SERVICES

LHAs are responsible for undertaking all renovation and maintenance services for their housing complexes. Expenditures on minor repairs and operating expenses incurred on an annual basis such as security, snow and waste removal, and grounds upkeep are classified as recurring expenditures. Renovation and maintenance projects costing over $300,000 and incurring on an infrequent or one-time basis are classified as non-recurring expenditures.

In 1990, non-recurring expenditures for OHC amounted to $87 million. Of this amount, the five LHAs we visited accounted for about $44 million (50 per cent). Recurring maintenance materials and services purchased amounted to $71 million. Internal labour costs, excluding transportation, communication and administration, amounted to another $86 million.

Tendering Requirements for Major Projects Complied With

OHC has policies and procedures in place governing the tendering of major contracts. Our audit at the five LHAs indicated that **these policies and procedures were generally being adhered to**. Specifically:

- Major contracts above $15,000 were publicly tendered.
- Short form or invitational tenders were normally used for contracts between $4,000 and $15,000.

Ontario Housing Corporation

3.15 cont'd

- Contracts were awarded to the lowest qualified bidders.
- All examined contracts over $300,000 were properly approved by the OHC Board.

Significant Delays in Completion of Major Projects

We found that **major renovation and maintenance contracts were frequently completed late**. In particular, we found that:

- Three of the five LHAs we visited had significant problems in completing their major projects on time. Our test of completion dates indicated that 80 percent of major contracts at one LHA were not completed on time, while 60 percent and 35 percent, respectively, were late for the other two.
- Many of the projects we examined affected the safety and quality of life of tenants. Significant delays in the completion of the contracts observed in our sample included items such as elevators (eight months), safety lock installation (five months), fire alarm system (six months), site improvement (seven months), and external lighting (four months).

Delays were usually due to one, or a combination of, the following factors.

Policy Not Complied With

OHC policy requires that evaluations of contractor performance be done on all major project contracts. Contract progress should be monitored and progress reports prepared. Our review of contract files at the five LHAs indicated that, for the majority of contracts, **progress reports were not prepared** even for projects with significant delays. For completed contracts, **performance evaluations were inconsistently done**, ranging from none to 70 per cent, depending on the LHA.

LHA officials indicated that many contractors considered OHC contracts to be low priority. Thus, whenever demand was high, OHC contracts often got put aside as contractors would complete their private sector jobs first.

Of the many jobs we examined which were not completed on time, not one of the contractors received any penalty. **Contractors who had caused significant delays continued to be awarded contracts.**

In addition to the effects on quality of life for tenants, deadlines are often a key factor to consider when contractors establish their tender price. Thus, failure to enforce reasonable completion dates is also unfair to unsuccessful or potential bidders.

3.15 cont'd

Planning and Co-ordination Efforts Required Improvement

Not all delays were caused by contractors. **Some delays could have been avoided or reduced with better planning and co-ordination.** Specifically:

- Some completion dates were not realistically set with the result that contractors did not take them seriously. For example, one LHA requisitioned major repairs to balconies at the beginning of the year but did not issue the purchase order until the fall. As the temperature for external water proofing required warmer weather, the job could not be finished until the following summer.

- Pre-construction meetings were often not called on a timely basis. Some were called three to four weeks after purchase orders had been issued to finalize the contract.

- One LHA had change orders on over 50 per cent of contracts entered into in 1990.

Better planning and specifications should reduce delays caused by frequent change orders, and would also reduce the temptation for contractors to 'low ball' their initial bid with the intention of increasing the contract with change orders once it is awarded.

Assessing Management of Maintenance Services

Timeliness of Maintenance Services Not Monitored

Our visits to the five LHAs indicated that tenant requests for repairs and maintenance services were usually attended to. However, we could not determine the timeliness of repairs. **Some LHAs did not record dates when they received the requests for repairs and most did not record when the repairs were completed.**

In the only LHA where phase one of the Property Maintenance System had been put in place to monitor repairs and maintenance services the reports proved to be unreliable.

Cost Effectiveness Not Demonstrated

With efforts to improve financial and property maintenance systems still under way, the LHAs have no means to consistently assess and report on the relative cost-effectiveness of their maintenance expenditures.

In the absence of any meaningful indicators or reliable industry statistics, we were unable to conclude on the cost-effectiveness of maintenance services. However, there is at least one comparison that suggests the need for improvement. In the largest LHA (Metro Toronto), 5,800 units are managed by private management. Our review of the average maintenance costs for private management projects showed that **labour and related costs were only 50 per cent and services and material costs were about 80 per cent of those under direct management.** Moreover, according to the last survey done by the

3.15 cont'd

MORS in 1988, tenants were more satisfied with maintenance services provided by private management and we found no appreciable difference in maintenance standards.

Better Purchasing and Payment Practices Required for Recurring Expenditures

While OHC has established prudent purchasing and payment procedures, our audit revealed that **LHAs have not sufficiently adhered to these policies and procedures** for recurring expenditures. For example:

- **Splitting of orders was observed in two of the LHAs visited,** whereby large purchases were divided into several smaller orders in order to avoid the tendering or approval process.
- At all LHAs, **verbal quotes for purchases between $750 and $4,000 were either not obtained or not properly documented** as required by corporate policy.
- All LHAs maintain a list of suppliers and contractors whom they contact when competitive procedures would not be appropriate, such as jobs smaller than $700 and emergencies. LHAs are supposed to rotate work among these contractors. **This rotation is frequently not done.** The same contractors and suppliers are continually receiving business from the LHAs visited.

RENT REVENUE

OHC units are known as "rent-geared-to-income" units. All forms of income, whether it be from employment or social assistance, are to be taken into consideration when calculating monthly rent.

A sliding scale is used for tenants with adjusted gross income of less than $400. Other tenants pay approximately 25 per cent of their income as basic rent plus an additional charge for utilities.

As income is the key criteria for establishing the amount of rent, tenants are required to sign approvals authorizing OHC to verify income with their employers, Revenue Canada, and other social assistance agencies. Each LHA is to perform an annual review of each tenant's family composition, income of all family members, and amount of rent paid. Rent charged should be adjusted depending upon the tenant's individual situation. In cases where a tenant's income declines during the year, OHC policy allows rent to be reduced for a period.

Inadequate Income Verification

While rents were properly calculated based on tenants' reported income, **we found income verification to be inadequate and inconsistent**. Income verification effort varied from LHA to LHA and even from individual area to area within each LHA.

3.15 cont'd

Except for self-employed tenants, staff do not obtain tax return information from Revenue Canada to verify reported income. OHC staff were frustrated that there was no way that they could determine whether tenants have reported all sources of income, such as income from more than one employer.

For family units, we also noted a lack of timely follow-up when tenants failed to provide an annual declaration of income for rent determination and inadequate checking when unreasonably low income was reported.

Low Rent at Private Management Projects

It is difficult to assess the impact of inconsistent income verification effort among LHAs. However, of the five LHAs we visited, we noted that **Metro Toronto rental revenues for family units increased only 3.1 per cent in 1990.** Excluding Metro Toronto, overall rent increases in 1990 for OHC family units averaged 5.2 per cent.

Although Metro Toronto tenants are among the most needy in the province, such a low increase is unusual when over 70 per cent of tenants receive social assistance which has increased by at least the rate of inflation each year.

One factor which contributed to the comparatively low rent increases in Metro Toronto was that the 5,700 units managed by a private management company had an average increase of only 2.1 per cent in 1990. Six private management complexes totalling 2,800 units and $8.4 million in combined annual rent revenues showed no increase in rent revenue over 1989 and one of these actually experienced a decline of over 4 per cent.

Additional testing of low rent tenants at private management projects revealed that higher rent might have been charged for 50 per cent of those tested if proper income verification or reasonableness checks had been done.

Inconsistent Treatment of Higher Income Tenants

In cases where 25 per cent of the tenant's reported income was higher than market rent, we noted that some LHAs followed the strict "rent geared to income" policy while others let the tenants stay and charged them the lower market rent. Still other LHAs charged lower rents but gave the tenants up to two years to move out of their units to make room for more needy applicants. **This inconsistent treatment produced inequities and may deprive more needy tenants of affordable housing.**

TENANT PLACEMENT

The department of Tenant Placement within each LHA is responsible for matching eligible applicants with available OHC units.

Applicants for OHC housing are placed on a waiting list using a point rating system. Those with higher point totals are offered units firsts. Points are assigned to applicants

3.15 cont'd

based on adjusted gross monthly income in relation to the number of family members, percentage of income spent on rent, present living conditions, and other priorities such as battered spouses.

At December 31, 1990 there were about 43,000 applicants on OHC waiting lists. The largest demand was from families (49 per cent), followed by seniors (29 per cent), and singles and couples (22 per cent). According to the Ministry's recent consultation paper, "fully 95 per cent of seniors are likely to be housed through OHC priority lists, compared to 32 per cent of singles and couples and 16 per cent of families."

Using Waiting Time to Distinguish Marginally Different Need

While the point system is a reasonably objective means of establishing an applicant's need for housing, it cannot effectively distinguish between degrees of need among applicants. It is hard to determine whether an applicant with 160 points is actually needier than an applicant with 150 points. While applicants with over 100 points are regarded as in "deep need" of affordable housing, LHAs we visited were only able to place applicants with over 155 points due to supply.

We noted that **the amount of time an applicant spends on the waiting list is not also considered, as a matter of policy.** As a result, an applicant with marginally higher point totals could get placed immediately while others of similar need might have to wait an unreasonably long time for housing.

Because there was no reliable analysis of the time applicants spend on the waiting list, it is difficult to assess the significance of this limitation. However, a system which considers both relative need and waiting times may provide greater equity in placement decisions.

Referrals to Other Funded Housing Providers

Non-profit municipal, private and co-operative housing corporations also provide social housing in Ontario. Funding for non-profits and co-operatives is either shared on a 50/50 or a 60/40 basis between the federal and provincial governments or provided 100 per cent by the Province.

Municipal and private non-profits established after 1986 must have at least 40 per cent "deep need" units in their projects. As a condition of funding, one-half of these "deep need" tenants must be selected from the LHA's waiting list. In co-operative housing corporations funded by the Province, a minimum of 25 per cent of total units must be for "deep need" households.

Our review of tenant placement files and discussions with placement officers revealed that:

- In some cases, referrals by LHAs to non-profits and co-operative housing agencies are not done according to OHC's point system. That is, the most needy are not necessarily referred.

3.15 cont'd

- Some non-profits and co-operatives refused referrals from LHAs we visited by simply stating that the applicant was not suitable for their project. In other cases, non-profits and co-ops have not asked for referrals from LHAs as required. A major municipal non-profit housing agency had not asked for referrals for over three years. In another area, 26 non-profits and co-op projects in the area did not contact the LHA for referrals during this same time period.

According to the LHAs:

- Conflicts have occurred from non-profits using different selection criteria than the LHAs to place tenants. Non-profit housing corporations prefer to use their own selection criteria and select tenants from their own waiting list.

- Although the LHAs we visited stated that referrals are made on a point basis, their desire to have referrals accepted indicates that the deep need applicants with higher point totals were not necessarily the applicants who were referred. In an attempt to foster good relations and encourage non-profits and co-operatives to accept referrals, tenant placement officials in four of the five LHAs visited have referred applicants with lower point totals whom they felt would be more suitable.

- LHAs are frustrated that they lack the authority to make non-profits and co-operatives accept applicants referred to them. In many cases, they were not sure whether any agreement existed regarding referral arrangements. In addition, three of five LHAs visited were not informed by the regional housing offices as to which non-profits or co-ops in the area should be contacting them for referrals.

Options to improve co-ordination of placement effort include community-based central registries and better monitoring for adherence to the placement conditions attached to funding for non-profits and co-operatives.

RESPONSE

The Chairman of the Ontario Housing Corporation responded to our audit report.

MANAGEMENT INFORMATION AND REPORTING

The HOMES Information System

"As mentioned in your report, there were frequent changes in Ministers and senior Ministry management during the development of this system. There were also significant changes in the business of both the OHC and the Ministry, including the introduction of non-profit housing programs, their tremendous growth in a relatively short period, and the assumption and development of rent review. Such significant new business directions were not contemplated during the original approval and proposals for the system. In fact, they adversely affected the project to the extent that the original software vendor... was unable to meet the new requirements without massive customization of the software. We obtained a full credit to be applied to the

3.15 cont'd

purchase of our new software package for the Corporate Financial Information System.

"In your report, you mentioned that the project was discontinued based on the recommendation of the consultant. It should be noted, however, that prior to this, senior management, recognizing the changed business requirements, initiated an internal business case review which was followed by the consultant assignment.

"The consultant provided fifteen recommendations to improve project management and the systems development process. All these recommendations have been implemented. Furthermore, the Ministry prepared an Information Strategic Management Plan which has been approved recently by Management Board. In view of the foregoing, we feel confident that we have taken the necessary steps to strengthen and improve controls, standards, accountability structures and processes for systems development."

Management Operation Review Section (MORS)

"The 'Standards to Success' program, administered centrally by the MOR Section, provided advisory information to the LHAs. It was not a mandatory management information reporting system, unlike those in place for overall budget, salaries, non-recurring (capital improvements) and unit vacancy reports. Overall, the Ministry and LHAs found it overly complex and centralized, for small LHAs in particular.

"Some housing managers rejected the internal peer comparisons as invalid, especially since management cannot greatly influence most costs (and revenue), e.g., municipal taxes and utility costs, salaries and tenant revenue. In addition, the two larger LHAs reviewed had other management review systems in place, and one of them formally proposed the reallocation of MORS staff and resources to other critical OHC functions.

"These reasons led to the discontinuation of the MORS function by the OHC and the Ministry... The Ministry and OHC acted responsibly and effectively in redeploying resources to meet more critical emerging needs. In the meantime, improvements have been made to the mandatory LHA reporting systems for the essential financial and human resources management functions. In particular, revenue forecasting, variance reporting and tracking of capital ('non-recurring') spending are receiving considerable attention."

MAINTENANCE PROJECTS AND SERVICES

Significant Delays in Completion of Major Projects

"The period covered by this finding is not clear in your report. It should be noted that in boom periods, penalty clauses are virtually unenforceable, even for major contractors. The only realistic recourse is documentation of troublesome firms with sufficient substance to disqualify their bids for subsequent work. However, such contractors will still have the appeal process available to them.

"The OHC has delegated approval of contracts over $300,000 to the Tender Awards Committee. This committee has identified the problems associated with the evaluation

3.15 cont'd

of contractor performance although there are already documented procedures within the Corporation's manuals and directives on monitoring of contractors. The committee is currently working towards rectifying these problems by identifying specific areas in which clearer direction is required and making proposals to incorporate these changes by Circular Letters into the Housing Authority Administration Manual. Specific training is also being contemplated.

"The planning and co-ordination of major repair and/or replacement activity is sometimes difficult to achieve given the competing and other changing priorities placed upon staff of the LHAs.

"There are 56 Housing Authorities with varying degrees of technical expertise. In many cases, the Regional Offices are very involved in the production of plan specifications, etc. Although the correct process is well documented, factors such as budget funds, delays in technical analysis, availability of specialized trades and the need to address on-going maintenance needs, often interfere with an LHA's ability to manage this process. More work is necessary to strengthen this process and every effort will be made to achieve improvement in the planning, coordination and monitoring of major projects."

Assessing Management of Maintenance Services

"The importance of standards and measures is appreciated and although the MOR Section is no longer functioning, new efforts are under way to achieve the same objectives, namely, Quality Customer Services with a property management orientation. Proposals on this topic will be presented to the OHC Board of Directors in the next few weeks.

"The importance of timely responses to maintenance requirements cannot be underestimated. This objectives is sometimes difficult to achieve, however, given human resources limitations and a growing demand for such services because of the age of the OHC stock.

"As mentioned previously in this response, the MTHA will strive to ensure the input to the Property Management System is kept up to date.

"Your comparison of the cost effectiveness of the LHAs with private management companies are, in our view, inappropriate. Because of various government initiatives, for example, French Language Services, Freedom of Information, etc., the public sector carries a significantly higher overhead than the private sector. In addition, the private management companies retained by the OHC are not required to employ Bargaining Unit staff which accounts for a significant differential in operating costs. Such firms also have special arrangements with suppliers in regards to the purchase of goods and services without having to adhere to the open, and extensive processes followed by the LHAs. In view of the foregoing, we reject your conclusion on cost-effectiveness since your analyses have not considered and eliminated and the aforementioned factors in your comparison."

3.15 cont'd

Better Purchasing and Payment Practices Required for Recurring Expenditures

"We are pleased to note that corporate policies for the acquisition of goods and services for major projects were satisfactorily adhered to. However, the OHC will be re-emphasizing its current policies and procedures to the LHAs to ensure that delays in projects are not experienced in the future and that proper purchasing practices are followed for recurring expenditures. Since January 1991, the Supply & Services Section of the Administrative Services Branch have been conducting regular workshops with the Housing Authorities in order to educate and train them in better purchasing and payment practices. We will also investigate the feasibility of tendering for standing agreements for plumbing and electrical discounts."

RENT REVENUE

Inadequate Income Verification

"The OHC will re-issue instructions to the LHAs emphasizing the importance of complying with the income verification policy."

Low Rent at Private Management Projects

"The MTHA is fully aware of the issue related to rental revenues in privately managed projects. Corrective action has already commenced. During 1990, the MTHA discovered that private management revenues were not keeping pace with the increase experienced by direct MTHA management. As a result, MTHA monitored the revenue earned in private management versus direct management for 1990. Based on the analysis and findings, MTHA is presently conducting an internal audit to ensure that maximum revenues are being collected within the private management portfolio. MTHA will take action based on the audit findings and recommendations."

Inconsistent Treatment of Higher Income Tenants

"The OHC is reviewing its policies on income integration. Imposing a 25% RGI on all incomes constitutes 'economic eviction' when the resulting rent exceeds comparable local rents. On the other hand, a market rent cap leads to more income integration and maintains families in their neighbourhoods, but at the expense of needier applicants. The OHC Board has allowed LHAs local discretion to apply other approaches since LHA portfolios and rental markets vary considerably across the province. This matter is now under review as part of the various consultation processes."

TENANT PLACEMENT

"As the auditor was aware, the Ministry and the OHC are currently examining existing policies and practices through joint working groups with LHAs and non-profit providers on income/social mix and tenant selection. These issues are also part of the

3.15 cont'd

Housing Framework and Quality of Life in Public Housing Consultation processes. We are obtaining the views of LHA staff, tenants, applicants and community groups as to problems with the system and recommendations for change. All of the points raised by the auditor are being reviewed, both in terms of equity, efficiency and effectiveness of existing policies and practices, and the extent to which policies are not being implemented."

Using Waiting Time to Distinguish Marginally Different Need

"There is a large and growing gap between the number of RGI applicants and available RGI units, both in OHC stock and non-profit/co-operative projects. It is a difficult decision in setting priorities as a basis to measure needs. Federal-provincial agreements also require that federal assistance (50% of OHC funding) be targeted to households in need. This area is not as clear-cut as was suggested in your report because:

- *when two applicants for the same project or location have similar points, LHAs can and do offer the unit first to the earlier applicant; and*
- *there is no evidence to suggest that the longer a person stays on the waiting list, the needier the person is. In fact, some LHAs report that those who are less needy can afford to wait longer than those with severe or urgent housing problems."*

"Nevertheless, the 'time on the waiting list' is a serious subject currently under consideration as part of the above-mentioned consultation processes and with the Federal Government which cost shares operating losses with the province on a 50/50 basis. It should be noted that housing agencies that use a chronological waiting list cannot measure relative need and cannot house the newly eligible (e.g., refugee claimants) or new needy (e.g., presently unemployed or evicted)."

Referrals to Other Funded Housing Providers

"The Local Housing Authorities and the Regional Housing Programs Offices are responsible for monitoring and ensuring that the required number of vacancies are offered by non-profit sponsors for referral purposes. We agree that more information flow is required. In cases where it has been identified that a non-profit group is not honouring its commitments, the Ministry of Housing has, in the past, followed up with the non-profit sponsor to ensure that referrals are made. This is done by informing the non-profit organization that continual non-compliance may lead to discontinuation of subsidy payments. However, the matter again is not as simple as suggested in your report.

"In our Housing Framework Consultation Paper, we have identified 11 issues related to Access to Housing. Some of these include:

- *To what extent should non-profits have a choice of needy applicants referred from Local Housing Authorities?*

Ontario Waste Management Corporation

3.15 cont'd

- *What kinds of social mix targeting is acceptable within assisted housing projects?*
- *In what ways should targeting plans be more flexible?*
- *What changes should be made to allow access to the existing stock for client groups having special needs?*
- *How could a better match be achieved between applicant needs and existing accommodation?*

"An appropriate policy will be developed upon the completion of the consultation process to guide future work in this area."

3.16
Hazardous Waste Treatment Facility and Other Matters, Ontario Waste Management Corporation

The Ontario Waste Management Corporation was established in 1981. The Corporation's objective is to significantly reduce the harmful impact of hazardous and liquid industrial waste on human health and the environment. To achieve this objective, the Corporation has proposed to build a waste treatment and disposal facility and has developed programs to encourage industries to reduce, reuse and recycle their hazardous waste.

The Corporation is wholly funded by grants from the Ministry of the Environment. Since 1981 the Corporation had spent over $110 million of which $69.5 million was for professional services and $23.7 million for salaries and benefits. Most of these expenditures were for projects related to the planned construction of a proposed hazardous waste treatment and disposal facility.

SUMMARY

SCOPE AND OBJECTIVES

Our audit objectives included:

- determining the status of the proposed hazardous waste treatment facility; and
- assessing whether consulting and legal services and travel expenses were properly controlled.

CONCLUSIONS AND FINDINGS

HAZARDOUS WASTE TREATMENT AND DISPOSAL FACILITY

The Corporation has calculated possible start-up dates and estimated costs in 1990 dollars ranging from November 1995 ($419 million) to April 1998 ($480 million).

3.16 cont'd

CONSULTING AND LEGAL SERVICES AND TRAVEL

Controls over consulting and legal services were less than satisfactory.

- **Numerous consulting assignments were awarded without competition or approval by the Board of Directors to waive competition.**
- **Many consulting assignments exceeded their original budgets. In one case, a budget of $40,000 was exceeded by $250,000.**
- **There was little or no evidence in the files examined to indicate that the work of consultants was properly supervised or monitored.**
- **In the 1991 fiscal year payments of $1.6 million for legal services exceeded the original budget by $760,000.**
- **Legal services were acquired without a tender call or other competitive process.**

Controls over travel expenditures were satisfactory.

OTHER MATTERS

- **Corporation salary ranges for several selected jobs were significantly higher than those of comparable positions in the Ontario Public Service.**
- **Many expenditures were inappropriate for an organization funded entirely by public monies.**

COMMENTARY

HAZARDOUS WASTE TREATMENT AND DISPOSAL FACILITY

Construction Requires Appropriate Approvals

The Corporation had decided on a hazardous waste treatment facility with an initial capacity of up to 150,000 tonnes per annum to handle 30,000 tonnes of waste by incineration and 120,000 tonnes by physical/chemical treatment. If required this capacity could be expanded up to 100 per cent. **In 1984 the facility was estimated to cost $144 million and was expected to be in operation by 1989.**

In July 1985 an Order-in-Council under the *Ontario Waste Management Corporation Act* required the Corporation to obtain the necessary approvals under the *Environmental Assessment Act*, the *Environmental Protection Act*, the *Ontario Water Resources Act* and any other applicable statutes before establishing the proposed hazardous waste treatment facility.

Ontario Waste Management Corporation

3.16 cont'd

At the time of our audit, the Corporation was involved in an environmental assessment hearing before a joint panel of the Environmental Assessment Board and the Ontario Municipal Board. Approval by the joint panel and ratification by the Provincial cabinet are required before construction can begin. **The Corporation has calculated possible start-up dates and estimated costs in 1990 dollars ranging from November 1995 ($419 million) to April 1998 ($480 million).**

CONSULTING AND LEGAL SERVICES AND TRAVEL

Controls over Consulting Services Less Than Satisfactory

For the period April 1989 to March 1991, expenditures for consulting services were $12.5 million. To assess the adequacy of controls over these services, we examined a representative sample of 28 consulting assignments totalling $2.2 million. **We concluded that controls were less than satisfactory. We found that:**

- **Contrary to Corporation policy 16 assignments, involving payments of $1.3 million, were awarded without competition (tendering or written quotations) or approval by the Board of Directors to waive competition.** Eleven of these assignments, totalling $1.18 million, ranged between $25,000 and $500,000.

  Competitive practices help ensure that the best value is received for funds expended, that consultants are treated fairly, and that the consultants selected are the best qualified.

- **Twelve assignments exceeded their original budgets of $1 million by $780,000. In one case, a budget of $40,000 was exceeded by $250,000.** For the majority of these assignments, change notices were issued increasing the budgeted or contracted amounts. However, explanations for the significant variances from budgets were generally incomplete or inadequate, as for example "due to revised scope."

- **There was little or no evidence in the files examined to indicate that the work of consultants was properly supervised or monitored.**

Controls over Legal Services Less Than Satisfactory

The Corporation obtained legal services from two firms. One of the firms had been retained since 1981 to represent the Corporation at environmental assessment hearings and to provide general corporate advice. The other firm had been retained to act as co-counsel with the first firm.

For the fiscal year ending March 31, 1991, payments of $1.6 million for legal services exceeded the original budget by $760,000. Management explained that expenditures for legal services exceeded the budget because of unanticipated demands and challenges that arose during the environmental assessment hearings.

3.16 cont'd

We noted that the two law firms had not been retained through a tender call or other competitive process. Furthermore, the Corporation did not have formal agreements with the two law firms specifying responsibilities, work to be done, hourly rates and expenses, and maximum amounts to be billed.

Senior management informed us that the Corporation had continued to rely on the law firm it had retained since 1981, due to the firm's involvement in the environmental assessment process and the need to have the firm pilot the environmental assessment documents through the hearing process.

A guideline of the Ministry of the Attorney General requires ministries and Schedule 1 agencies to acquire private sector lawyers by tender call and to establish formal agreements for the services to be rendered. While the Corporation is a Schedule 2 agency and is not required to follow the guideline, we believe that it would be prudent business practice to do so, or to adopt some similar policy.

Controls over Travel Expenditures Satisfactory

The Corporation's policies require employees on travel status to use the most practical and economical means of transportation. Travel arrangements are to be made sufficiently in advance, whenever possible, in order to obtain the lowest airfare. Travel outside North America requires prior approval by both the President of the Corporation and the Deputy Minister of the Ministry of the Environment. In their submissions for approval, employees are required to state the estimated costs of the trips, countries to be visited and dates of travel.

For the period April 1987 to December 1990, employees incurred travel expenses of approximately $660,000, including about $180,000 for travel outside of North America. **Our tests of a representative sample of travel expenses incurred, both within and outside of North America, did not reveal any significant control deficiencies.**

OTHER MATTERS

Salaries Significantly Higher Than in Comparable Government Positions

Salary range and classification levels had evolved from a study by a management consulting firm in 1985. The firm conducts salary surveys of industrial organizations which are used by the Corporation in determining annual salary range adjustments. For the fiscal year ending March 31,1991, salaries and benefits paid to the Corporation's 69 employees totalled $3,880,000.

According to its Memorandum of Understanding with the Ministry of the Environment, the Corporation is required to establish classifications and salary ranges taking into consideration those used in the Ontario Public Service.

As a result of our preliminary review, we were not satisfied that Ontario Public Service classifications and salary ranges were sufficiently taken into consideration when determining the salary ranges of the Corporation's employees.

Ontario Waste Management Corporation

3.16 cont'd

Accordingly, for the 1990 year, we selected 10 jobs to carry out our comparisons. The salaries for these jobs were within the following ranges:

Range	Number
Less than $40,000	2
$41,000 to $80,000	4
$81,000 to $125,000	4

We requested both the Human Resources Secretariat and the Ministry of the Environment to carry out comparisons with similar jobs in the Ontario Public Service.

Responses received indicated that it was difficult to evaluate the jobs and certain assumptions had to be made. Nevertheless, they identified the possible comparable positions. **The comparisons revealed that the salary ranges of five of the ten jobs were significantly higher than those of comparable positions in the Ontario Public Service.** Three of these five jobs were within the $81,000 to $125,000 range, while two of the comparable positions in the Ontario Public Service were in the $67,450 to $101,200 range and the third was in the $59,000 to $88,600 range.

The comparisons for the other five jobs revealed they were within the classification ranges of comparable positions in the Ontario Public Service.

Other Anomalies

We noted that many expenditures for the period April 1989 to December 1990 were inappropriate for an organization funded entirely by public monies.

- Two senior officials spent approximately $15,000 on hospitality . This hospitality included 381 lunches totalling $7,000 when only employees of the Corporation were present.

- A senior official who lived in the Metro Toronto area stayed overnight in local hotels on at least 28 occasions, at an average cost of $140 per night. In most instances written explanations were not provided.

- Instead of using the Corporation's boardroom to discuss Corporate issues, such as OWMC's strategic plan, senior officials held 10 meetings at rented hotel facilities costing $14,000.

3.16 cont'd
RESPONSE

The response from the Chairman/President included the following comments.

HAZARDOUS WASTE TREATMENT AND DISPOSAL FACILITY

Construction Requires Appropriate Approvals

"The cost estimate of $480 million is the current best estimate in 1990 dollars which includes an inflation allowance of 6 per cent, and allows for technological improvements and owner's costs which are not included in the 1984 estimate of $144 million. . . ."

CONSULTING AND LEGAL SERVICES AND TRAVEL

Controls over Consulting Services Less Than Satisfactory

- *"Of the 16 assignments cited, five were for less than $25,000 and do not require competitive bids to comply with OWMC policies, although two of these did receive competitive bids.*

  "Of the remaining 11 assignments, three were, in fact, competitively bid and evaluated. Of the remaining eight, four were not tendered because of the need to maintain continuity of expert witnesses at the hearings. The others were selected without tender due to their special expertise. In the view of management, these were appropriate.

  "The Corporation attempted, early in its history, to retain the best consultants through a competitive process, and recognized the need to retain their services throughout the hearing phase. This policy resulted in the Corporation retaining approximately 40 key firms that have acted on the Corporation's behalf in major areas of work. It is vital these consultants remain with this project through to approval: the knowledge and skills they have accumulated are irreplaceable, and many are required on an on-going basis to give highly-technical evidence before the hearing panel in various phases."

- *"The statement that costs incurred for 12 assignments exceeded their original budgets ignores OWMC's Change Notice procedure which is an integral way of controlling and monitoring consultants' assignments. Due to the iterative nature of the hearings process, OWMC prepares budgets for consultancy work on a 'most likely' timetable. The hearings process, which is not under OWMC's control, invariably leads to changes in the budgeted timetable, often resulting in the need for changes in scopes of work, ad hoc requests from the hearings panel for new or revised evidence, and variations in the frequency and content of interrogatory responses requested by opponents. These are features of any hearings process, which the Auditor's report fails to appreciate. The Change Notice procedure is an appropriate means of reflecting these changing requirements and maintaining effective control over expenditures.*

  "Expenditures for only three assignments, not 12, exceeded the authorized limit when Change Notices are considered. The one case cited in which a budget of

Ontario Waste Management Corporation

3.16 cont'd

$40,000 was claimed to be exceeded by $250,000, in fact, involved two separate Purchase Orders with the same firm. The one was issued in May 1989, and the other issued in May 1990. When the separate Purchase Orders and related Change Notices are taken into account, actual expenditures were within one per cent of the amount authorized."

- *"The auditors in many cases examined only files centrally located in OWMC's Administration and Finance department. Apparently, the auditors chose not to look at the program working files which are kept by the staff in charge of the projects examined. The Corporation is satisfied, had the auditors examined these, they would understand that OWMC controls are effective. OWMC controls and supervises the work of most consultants daily at the program working level. The Finance files only ensure that estimates and costs for work are properly controlled."*

  Editorial Note: We were informed by the program staff that their files contained no information on the monitoring of consultants. In addition, the program staff indicated that evidence of such monitoring would be found in the Finance files. Consequently, we did not review the files of the program staff.

OTHER MATTERS

Salaries Significantly Higher Than in Comparable Government Positions

"The Management Board of Cabinet Guideline 6-1-4 states: 'The employees of Schedule II agencies are oriented more toward the activities of business than toward government service. They exercise entrepreneurial skills and a degree of individual initiative and flexibility not normally found within the government.' Since OWMC is a Schedule II agency, that statement alone would seem to make the comparison ill-founded and cast doubts on its validity. . . ."

"OWMC's ranges are determined objectively, based on the Hay Guide Chart/Profile Method of Job Evaluation. The Board chose the Hay system in 1982, on expert advice, over a number of alternatives, in recognition of ' the need for a sound compensation program which would attract the calibre of staff needed for the Corporation to meet its business objectives.' It enables OWMC to compare similar jobs in organizations in the private and public sectors which participate, together with OWMC, in annual salary surveys.

"To compound this problem, the auditors did not select a representative sample of OWMC's positions for comparison. Of 10 selected positions, all four senior management positions were included. The report compared, unfairly, OWMC's 'director' level salary ranges with those of 'directors' in the government; to compare OWMC 'directors' with government 'directors' assumes they are the same: OWMC directors, as department heads, would more favourably compare with the executive director or assistant deputy minister positions in the government, OWMC submits, and the salary range level (SMG 3) for those positions is, in fact, slightly higher than OWMC's range or $89,000 to $134,000. OWMC 'directors' report directly to the President who is the equivalent of a Deputy Minister level position in the Ontario Government. Moreover, one of OWMC's 'directors' was hired recently from an

3.16 cont'd

assistant deputy minister level position in the Ontario Government. A more precise and complete comparison could have concluded the salaries were comparable.

"An additional basis for an objective evaluation also is available. Two of the four directors above were recently hired through international recruitment agencies who established that the salary ranges offered were appropriate for the positions and for the calibre of candidates the Corporation hoped to attract from both the public and private sectors."

Other Anomalies

"Hospitality, use of local hotels for a senior official, and the use of rented hotel facilities for meetings instead of the Corporation's board room have all been monitored, and OWMC considers them reasonable.

- *"Hospitality expenditures at OWMC are tightly controlled. The expenditures of the two senior officials were incurred over an almost two-year period. This was appropriate for the nature of their duties, and all claims were supported by documentation on the business reason for the meeting, the names of the persons in attendance, as well as their affiliation.*

- *"The senior official who lives in Metro Toronto and stayed in hotels on 28 occasions over a 21-month period was staying in each case for reasons entirely related to corporation business. These were late night and early-morning workshops which required his presence beyond usual working hours or for informal meetings with members of the Board of Directors prior to the regular business meeting the next day. Ten of the meetings were with the Board; eight were with OWMC senior management group for strategic planning sessions, one meeting was preparatory to an all-day OWMC full staff meeting, and eight were as a participant in external conferences and workshops.*

- *"The meetings of senior officials to discuss major corporate issues, such as OWMC's strategic plan, took place in outside facilities and continued after regular working hours on what would otherwise be the staff's own time. Some of these meetings were held in nearby hotels so that meals could be provided for evening working sessions, normally held from 6 p.m. to 11 p.m. after a full day of regular work. Rooms were sometimes provided to allow for an early start the next day. Three of OWMC's senior management at that time lived outside of Metro Toronto."*

3.17
Newly Established, Terminated and Inactive Crown Agencies

During the 1991 fiscal year, the following changes occurred to the categories of agencies of the Crown and Crown controlled corporations as defined in the Audit Act.

CHANGES IN DESIGNATION OF AGENCIES

The following are no longer agencies of the Crown:

- IDEA Information Technology Fund Inc.
- IDEA Innovation Fund Inc.
- IDEA Research Investment Fund Inc.

In the past, the Provincial Auditor had been appointed to audit these subsidiaries of the Ontario Development Corporation. For the 1991 fiscal year, a public accounting firm was appointed to audit the accounts of the subsidiaries.

The Ontario Mortgage Corporation ceased to be an agency of the Crown and became a Crown-controlled corporation. The Corporation is now being audited by a public accounting firm rather than the Provincial Auditor.

TERMINATED AGENCIES

Corporation of the Improvement District of Kingsford

The Crown-controlled corporation was dissolved effective December 31, 1990 and all the remaining assets, rights, obligations and liabilities were transferred on an interim basis to the Ministry of Municipal Affairs.

Ontario Van Pool Organization Limited

The Crown-controlled corporation was dissolved June 5, 1990.

INACTIVE AGENCIES

As at March 31, 1991 there were five inactive Crown agencies:

- The John Graves Simcoe Memorial Foundation
- Ontario Deposit Insurance Corporation
- Ontario Land Corporation
- Ontario Pavilion Expo '86
- Ontario Telephone Development Corporation

CHAPTER

4

PUBLIC ACCOUNTS OF THE PROVINCE

CHAPTER 4
PUBLIC ACCOUNTS OF THE PROVINCE

4.1 Preparation of the Public Accounts

The Public Accounts for each fiscal year ending March 31 are prepared under the direction of the Treasurer as required by the Ministry of Treasury and Economics Act. Published in three volumes, the Public Accounts are delivered to the Lieutenant Governor in Council and are laid before the Assembly not later than the tenth day of the first session held in the following calendar year.

Volume 1 of the Public Accounts contains the financial statements of the Province and other statements and schedules. The Provincial Auditor audits and expresses an opinion on the financial statements, and generally scrutinizes the other information reported in Volume 1.

Included in Volume 2 are reproductions of audited financial statements of agencies of the Crown and Crown controlled corporations:

(a) in which the Province has an investment, or

(b) which have borrowed from the Province, or

(c) which have borrowed from others with a guarantee by the Province.

Volume 2 also contains the audited financial statements of certain significant operational agencies funded in whole or in part by revenues they generate.

Volume 3 details each ministry's expenditures, such as salaries and wages, employee benefits, travelling expenses and other payments, under two main categories: Voted Appropriations and Statutory Appropriations. Again the Office generally scrutinizes the information contained therein and any relevant comments would be included in this Chapter.

4.2 Financial Statements of the Province

The audited financial statements and accompanying notes summarize the financial activities of the Province for the fiscal year, and report on the significant aspects of the Province's financial position at the close of the fiscal year.

The Summary of Significant Accounting Policies is an integral part of the financial statements, and appears on pages 1-2 and 1-3 of Volume 1 of the 1990-91 Public Accounts. The Summary provides the reader with a clear understanding of the principles and methods used to present the financial information in the statements. The accounting policies stated in the Summary alert the reader to the differences, some of which are significant, between the policies followed by profit-oriented enterprises and those followed by the Province.

As covered in the Summary of Significant Accounting Policies, the Province's financial statements are prepared using the concept of a Consolidated Revenue Fund, and are designed to provide an accounting of the financial resources appropriated by the Legislature. Accordingly, the financial transactions of Government ministries are set out as Consolidated Revenue Fund cash inflows and outflows. In the case of cash outflows, this basis is modified to allow an additional 30 days to pay for obligations incurred during the fiscal year just ended. Cash inflows, however, are closed at

4.2 cont'd

March 31. Under the Consolidated Revenue Fund concept the activities of Crown corporations, boards and commissions are reported only to the extent to which their operations have been financed from, or have contributed to, the Consolidated Revenue Fund.

The Office of the Treasury, responsible for financial statement preparation, maintains that the present cash basis of accounting is precise, well-understood and is no less informative than the accrual basis of accounting. The method used is appropriate to the needs of its two primary user groups, legislators and the general public.

The Office of the Provincial Auditor fully supports this position.

4.3
Provincial Auditor's Opinion

The Provincial Auditor's opinion is stated as follows:

I have audited the statement of financial position of the Province of Ontario's Consolidated Revenue Fund as at March 31, 1991 and the statements of financial transactions, revenue, expenditure, financing, and loans and investments for the year then ended. These financial statements are the responsibility of Office of the Treasury management, Ministry of Treasury and Economics. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

This audit was planned and performed to obtain a high degree (99 per cent) of assurance that the aggregate total of any misstatements in the financial statements was less than $90 million.

In my opinion, these financial statements in all material respects present fairly, in accordance with the stated accounting policies, the financial position of the Province's Consolidated Revenue Fund as at March 31, 1991 and the results of its operations and the changes in its financial position for the year then ended. As required by the Audit Act, I report that, in my opinion, the stated accounting policies have been applied on a basis consistent with that of the preceding year.

D.F. Archer

Toronto, Ontario,
July 19, 1991.

D.F. Archer, F.C.A.,
Provincial Auditor.

Advance Payments Affecting the Deficit

4.4
Advance Payment of Expenditure - Its Effect on the Deficit

We have commented in our 1989 and 1990 Annual Reports on the practice of paying expenditures in advance, and on the resultant effect on the provincial deficit. The practice was continued this year.

Unfunded liability payments to the Ontario Teachers' Pension Fund ($196 million), that normally would have been paid in the 1992 fiscal year, were preflowed and charged to expenditure in the 1991 fiscal year. The reported deficit for the year ended March 31, 1991 was thereby increased by the amount of the advance payment.

The practice of preflowing expenditures, particularly in the absence of a consistent pattern, can be viewed as an attempt to "manage" operating results. To allay any doubts concerning the integrity of the accounting process, we reiterate the recommendation in last year's Report - that the Government treat preflows as advances rather than expenditures. These advances could then be reported as financial assets at year end and appropriately converted to expenditure in the succeeding year.

4.5
Non-Recurring Expenditure

Included in the Statement of Expenditure are two items of a non-recurring nature, totalling $728 million. Guarantees of $407 million in connection with the 1986 sale of the Urban Transportation Development Corporation Ltd. were honoured. Additionally, an investment of $321 million in the Stadium Corporation of Ontario Limited was written off. An explanation of these two expenses follows:

Urban Transportation Development Corporation Ltd.

In 1986, the Corporation sold its fixed assets, technology, inventory and other assets and contracts to Lavalin Enterprises Inc. Lavalin purchased the assets through a new company, UTDC Inc. Under the terms of this sale, however, the Corporation retained its existing major contracts, remaining responsible for the completion of these contracts and for all warranty and performance related matters.

In completing these contracts, revenues were insufficient to offset the expenses. To the extent that the Corporation did not have its own funds to cover these expenses, it received financing through the issuance of preferred shares to an affiliated company, The Ontario Transportation Development Corporation (OTDC). In turn, OTDC financed the purchase of these shares through bank loans, which were guaranteed by the Province.

During the months of November and December 1990, the Province paid OTDC $395 million, which in turn was used to discharge its bank loans.

The Province also paid $12 million to UTDC in the first quarter of 1991 so the Corporation would have sufficient funds to complete the wind up of its operations. Senior management of the Corporation was of the opinion that, with this additional infusion of cash, UTDC had sufficient funds to completely liquidate all of its remaining obligations.

4.5 cont'd

The preceding payments totalling $407 million were authorized by Special Warrant dated October 24, 1990 ($400 million) and by Management Board Order dated March 26, 1991 ($7 million).

Stadium Corporation of Ontario Limited

By Order in Council dated January 10, 1991 the Treasurer was authorized to invest in promissory notes and other securities of this Corporation, of which the Province is the sole shareholder. To the end of March, the Province's total investment in promissory notes was $321 million. This money was used by the Corporation to discharge its bank indebtedness, which had been guaranteed by the Province.

An Order in Council dated April 25, 1991 authorized the writing off of this $321 million as at March 31. The following factors are relevant:

- Under the terms of a May 1986 agreement between the Corporation and the consortium of private sector corporations that also contributed to the financing of the SkyDome, the Corporation undertook the responsibility for completion of the construction of the SkyDome. On May 20, 1986 the then Treasurer signed an acknowledgement on behalf of the Province stating that the Province would be responsible for the financial obligations of the Corporation under that agreement.

- The final costs of constructing the SkyDome were much greater than initially anticipated. For a number of reasons these costs, which in early 1986 were estimated at $225 million, had grown to approximately $585 million by the end of 1990.

  Major expansions to the originally planned scope and scale of the project were a significant contributing factor - a hotel, fitness club, restaurants and food preparation areas, backlit billboards and additional private boxes.

- As a result, a large portion of the project was financed through bank loans. In turn, the net income generated from the use of the Sky Dome was inadequate to cover the interest on these loans (now converted to promissory notes). The Corporation's audited financial statements for the year ended December 31, 1990 reported net income of $17.2 million before interest and depreciation. After providing for interest ($39.2 million) and depreciation ($17.2 million), the loss for the year was $39.2 million.

- An assessment by the Ministry of Treasury and Economics of future cash flows indicated that the Corporation was not likely to have sufficient cash flows for many years to pay off the promissory notes.

- Efforts to negotiate a refinancing agreement with the members of the consortium had not proven fruitful as at March 31, 1991.

In the circumstances, the Government decided to write off the promissory notes. This write-off was consistent with the accounting policies of the Province, whereby asset

4.5 cont'd

values are adjusted when it can be determined that the value of their underlying security has diminished or when the Province's asset is not likely to be fully recovered.

However, the write off of these notes does not absolve the Corporation from its legal obligation to eventually pay them off. The notes are being rolled over as they become due in order to maintain the Corporation's obligation. The notes are still being recorded as memo accounts receivable in the Province's records (See Public Accounts, Section 3 of Volume 1).

In this regard, negotiations are continuing with the members of the consortium in an attempt to arrange a refinancing agreement for the SkyDome.

4.6
The Consolidated Revenue Fund
- Authorized and Actual Payments

Authorized Payments

Government revenues and expenditures are channelled through a single fund, the Consolidated Revenue Fund. All public monies received are pooled in the Fund. Expenditures from the Fund are of two major types: those pursuant to Estimates including Supplementary Estimates, approved by the Legislative Assembly, and those pursuant to the provisions of various statutes. The former are termed payments from Voted Appropriations while the latter are termed payments from Statutory Appropriations. Voted Appropriations, which are formalized annually by the Supply Act, may be increased by Management Board Orders. A third type of payment out of the Consolidated Revenue Fund is that pursuant to delegated authority in the form of Special Warrants. The nature of these expenditure approval mechanisms is more fully explained as follows.

Voted Appropriations

Prior to the passage of the Supply Act, the Legislature authorizes payments out of the Consolidated Revenue Fund by means of motions of interim supply. For the 1991 fiscal year the time periods covered by the motions of interim supply, and the dates the motions were agreed to by the Legislature, were as follows:

- April 1, 1990 to June 30, 1990 - passed March 27, 1990
- July 1, 1990 to October 31, 1990 - passed June 27, 1990
- January 1, 1991 to April 30, 1991 - passed December 20, 1990

Payments for the period November 1, 1990 to December 31, 1990 were authorized by Special Warrants. The nature of this authority is more fully explained later in this section.

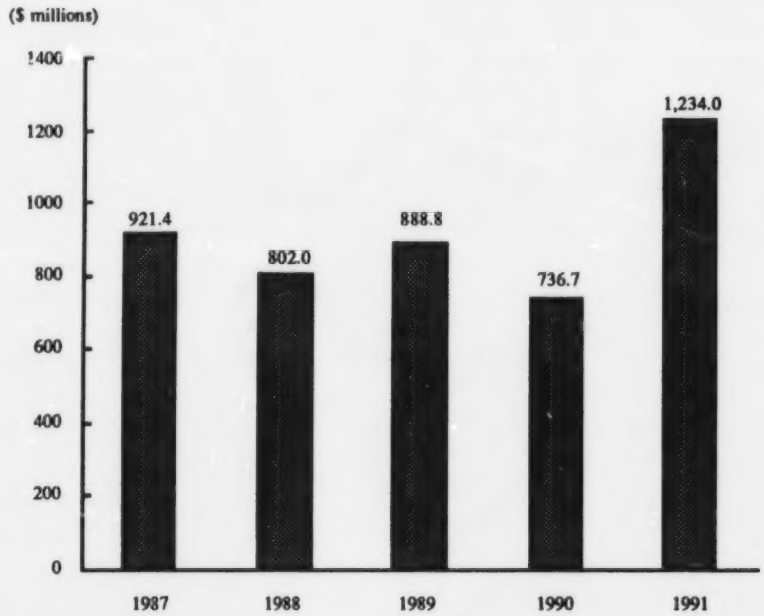
When the Legislature approves the Supply Act, the annual estimated expenditures (Estimates and Supplementary Estimates) are formalized as Voted Appropriations. The Supply Act, 1991, pertaining to the fiscal year ended March 31, 1991, received Royal Assent on June 13, 1991. The Supply Act was delayed because the Legislature dissolved (for the called election) before all the Estimates had been reported to the Assembly.

4.6 cont'd

Management Board Orders

When an appropriation is exhausted or a sufficient amount was not provided and the public interest or the urgent requirements of the public service necessitate further payments, section 5 of the Management Board of Cabinet Act allows the Board to make an order authorizing payments to be made against such amounts as it considers proper.

The following chart is a summary of the Management Board Orders issued for the past five years:



The Management Board Orders for the 1991 fiscal year summarized by month of issue are as follows:

Month of Issue	*Number*	*Authorized* $	%
October 1990 to February 1991	19	604,907,500	49.0
March 1991	30	365,775,600	29.6
April 1991	24	263,357,400	21.4
	73	1,234,040,500	100.0

In accordance with a Standing Order of the Legislative Assembly, the preceding Management Board Orders have been printed in *The Ontario Gazette*, together with explanatory information.

4.6 cont'd

Special Warrants

As previously indicated, motions of interim supply adopted by the Legislature are the usual means of authorizing payments from the Consolidated Revenue Fund prior to the passage of the Supply Act. However, when the Legislature is not in session, section 4 of the Management Board of Cabinet Act provides for the issue of a Special Warrant authorizing payment of an amount required to meet an expenditure not foreseen or provided for by the Legislature and which is urgently required for the public good.

Two Special Warrants totalling $10,885,922,936 were issued during the year ended March 31, 1991. The Special Warrants were approved by an Order in Council dated October 24, 1990. Payments for both the general and necessary expenditures of the Government, and for the general and necessary expenditures of the Offices of the Chief Election Officer, the Legislative Assembly, the Ombudsman and the Provincial Auditor, were authorized by these Special Warrants.

The amounts of the Special Warrants were based on the anticipated cash requirements, on the premise that expenditure would continue up to the authorized limit, and then under the authority of motions of interim supply.

The total approved by the Supply Act, 1991 excluded the amount authorized by the two Special Warrants.

In accordance with a Standing Order of the Legislature, summaries of the Special Warrants were tabled on the first Sessional day following the issue of the Warrants.

Statutory Appropriations

Payments out of the Consolidated Revenue Fund relating to Statutory Appropriations represent those where the specific authority to spend is expressly contained in a statute of the Legislature. No further specific approval is required, as the spending authority continues indefinitely until the statute is amended or repealed.

For the information of the Legislature, the Government notes in the annual Estimates the amount expected to be spent in accordance with the authority given in the various statutes. However, if spending on Statutory Appropriations exceeds the expected amount, no Management Board Order is required.

4.6 cont'd

Comparison of Authorized and Actual Expenditures

The comparison for the fiscal year ended March 31, 1991 is as follows:

	Authorized ($ millions)	Actual ($ millions)
Voted Appropriations		
Estimates	29,608	29,038
Management Board Orders	1,234	1,197
	30,842	30,235
Statutory Appropriations	4,900*	6,159
Special Warrants	10,886	10,886
	46,628	47,280

* Expected expenditure

A detailed listing of Management Board Orders, showing the amounts authorized and expended, is included as Exhibit 5 of this Report.

4.7 Write-off of Uncollectible Accounts

Under section 5 of the Financial Administration Act, the Lieutenant Governor in Council, on the recommendation of the Treasurer, may delete from the accounts any amount due to the Crown deemed uncollectible. The losses deleted from the accounts during any fiscal year are to be reported in the Public Accounts.

Public Accounts Presentation

As explained in the Public Accounts' Summary of Significant Accounting Policies, the assets recorded in the financial statements are essentially those resulting from financial claims on other parties which have been created through cash transactions made by the Province. Thus loans, advances and investments made by the Province are normally recorded as assets. On the other hand accounts receivable, such as taxes receivable, are not included as assets as they are usually not the result of cash transactions made by the Province.

The majority of receivables represent amounts owing to the Province under various revenue-producing activities and are listed as memorandum accounts receivable. In addition, certain loans are included in the memorandum listing rather than on the Statement of Financial Position. These loans have one or more of the following characteristics:

- either no specific security or security of limited value;
- no specific repayment terms;

Write-off of Uncollectible Accounts

4.7 cont'd

- repayment is conditional only on future uncertain events.

These loans are considered to be in the nature of "recoverable grants" and are treated as expenditure when made and as revenue when repaid. The major examples of loans in this category are the Ontario Rental Construction Loan Program and the Non-Residential Rental Conversion Pilot Project.

A memorandum listing of the $1.6 billion in outstanding accounts receivable as at March 31, 1991 (1990 $1.1 billion) is provided on pages 3-28 to 3-31 of Volume 1 of the Public Accounts.

Most write-offs do not affect the Deficit of the Province as they relate to the memorandum accounts receivable. The major exceptions relate to the write-off of performance and term loans made by the Development Corporations from funds advanced by the Province. The advances are recorded as assets in the Statement of Financial Position. When performance loans are forgiven, or term loans are deemed uncollectible, the Corporations write off the loans, and monies appropriated by the Legislature for that purpose are used by the Corporations to repay their corresponding advances. The appropriated monies are treated as expenditures for Public Accounts purposes and thus affect the Province's Deficit.

1991 Write-offs

A total of $387.0 million was written off in the 1991 fiscal year, as indicated on page 3-25 of Volume 1 of the Public Accounts. Excluding the non-recurring write-off of $321 million in advances to the Stadium Corporation of Ontario Limited (see Section 4.5), the remaining write-offs amounted to $65.5 million (1990 $90.7 million). The major portion of these write-offs related to the following:

- The Ministry of Industry, Trade and Technology wrote off $21.4 million. Of this amount, $11.8 million pertained to uncollectible loans made under the Development Corporations Act and by the former Board of Industrial Leadership and Development (BILD). Borrowers had gone bankrupt, into receivership or collection was considered doubtful. The Ontario Development Corporation considered the remaining $9.6 million to be two special account write-offs, one of which dealing with a truck trailer manufacturer is referred to in Section 3.8.

- A $19.0 million write-off was made by the Ministry of Revenue for unpaid taxes and GAINS overpayments. The major write-offs were as follows:

	($ millions)
Retail Sales Tax Act	7.9
Corporations Tax Act	5.8
Tobacco Tax Act	3.9

4.7 cont'd

Other write-offs of uncollectible debts included the following:

The Ministry of Community and Social Services wrote off $8.0 million with respect to overpayments under the Family Benefits Act. Most of this write-off involved situations where: the account was over three years old and the ministry was unable to pursue further; evidence was insufficient to pursue in court; overpayment was greater than the restitution ordered by the court.

The Ministry of Financial Institutions wrote off $6.3 million in uncollectible claims and judgements pertaining to the Motor Vehicle Accident Claims Fund. Most of this write-off related to situations where: no judgement was issued and the debt is no longer considered collectible; payments were made from the Fund when unidentified hit and run drivers were involved; no payments were made on claims/judgements for five years; debtor was killed at the time of the accident, or died subsequently, without leaving any estate or assets.

Uncollectible accounts totalling $4.0 million in fines, costs and fees owed to Provincial Courts were written off by the Ministry of the Attorney General. The majority of these write-offs involved accounts at least four years old.

The Ministry of Colleges and Universities wrote off $2.2 million for various student support programs. Virtually all of this write-off pertained to loans made to students who had declared bankruptcy.

The Ministry of Health wrote off $1.3 million in the 1991 fiscal year. The major portion of this write-off related to arrears of OHIP employee group, and pay direct, premiums owing when OHIP premiums were replaced by the Employer Health Tax effective January 1, 1990.

Defaulted guaranteed bank loans of $1.0 million, relating to the Ontario Farm Adjustment Assistance Program, were written off by the Ministry of Agriculture and Food. This represented the balance of guarantees paid to banks after applying any proceeds of liquidation of farmers' assets.

4.8 Transfers Authorized by Board of Internal Economy

When the Board of Internal Economy authorizes the transfer of monies from one item of the estimates of the Office of the Assembly to another item within the same Vote, the Provincial Auditor is required to make special mention of the transfer(s) in his report.

In respect of the 1990-91 expenditure estimates, the following transfers totalling $1,875,000 were made within Vote 201:

From:	Item 4	Broadcast and Recording Services	$ 700,000
	Item 7	Assembly Services	1,175,000
To:	Item 2	Office of the Clerk	239,000
	Item 6	Office of the Controller	500,000
	Item 8	Sessional Requirements	700,000
	Item 10	Members' Office Support Services	76,000
	Item 11	Caucus Support Services	360,000

CHAPTER

5

OFFICE OF THE PROVINCIAL AUDITOR

CHAPTER 5
OFFICE OF THE PROVINCIAL AUDITOR

5.1 Independence of the Provincial Auditor

To be effective in carrying out its work, the Office of the Provincial Auditor must be able to proceed without interference in formulating unbiased audit opinions and audit reports. Additionally, the Office must be perceived to be independent by all those, including the general public, directly or indirectly affected by the Office's activities.

The independence of the Provincial Auditor has been ensured by the provisions of a separate legislative act, the Audit Act. The Provincial Auditor and the Office of the Provincial Auditor are independent of the Government and its administration. Neither the Provincial Auditor, nor the employees of the Office of the Provincial Auditor, are employees of the Government. More precisely, the Provincial Auditor is appointed an officer of the Legislative Assembly by the Lieutenant Governor in Council on the address of the Assembly after consultation with the Chairman of the Standing Committee on Public Accounts. Thus, the Provincial Auditor is accountable to the public through their elected representatives.

For Office expenditures and staffing the Provincial Auditor is accountable to the Board of Internal Economy, an all-party legislative committee independent of the Government's administrative process. The Audit Act requires the Office's expenditures to be audited annually by a firm of chartered accountants appointed by the Board. The audited statement of expenditure for the 1991 fiscal year has been submitted to the Board and tabled in the Assembly. It is reproduced in Section 5.10.

5.2 Office Goals

The primary goal of the Provincial Auditor is:

- to assist the Legislature in holding the Government and its administrators accountable by reporting to the Legislature on the quality of the administration's stewardship of public funds.

The Provincial Auditor's secondary goal is as follows:

- to assist Deputy Ministers/agency heads in holding their administrations accountable by reporting to them on the quality of the ministries'/agencies' stewardship of public funds.

The Provincial Auditor seeks to achieve these goals by conducting value for money, attest and compliance audits; by presenting individual audit reports to the respective Deputy Ministers/agency heads; and by presenting an Annual Report to the Legislature.

5.3 Audit Responsibilities

The Provincial Auditor, internal auditors and public accounting firms may be involved in auditing the Government in the following areas:

- ministries, including transfer payment recipients;
- agencies of the Crown and Crown controlled corporations; and
- the Province's financial statements.

5.3 cont'd

The Provincial Auditor

Primary Responsibility

The primary responsibility of the Provincial Auditor is to audit the administration of Government programs and activities, as carried out by ministries and agencies of the Crown under Government policies.

Audit responsibilities, however, do not extend to Government policy matters. The Office audits neither Government policies nor information contained in Cabinet documents used in policy deliberations or decisions. The Government is held accountable for policy matters by the Legislature, which continually monitors and challenges Government policies and programs through questions in the House and reviews of legislation and expenditure estimates.

Ministries

The Provincial Auditor, per section 9(1) of the Audit Act, is required to audit Government ministries. While value for money audits are the primary focus, the Office also carries out an annual attest audit to enable the Provincial Auditor to express an opinion on the Province's financial statements. Exhibit 2 lists the ministry audits covered by this Report.

Agencies of the Crown

The Provincial Auditor, per section 9(2) of the Audit Act, is required to audit those agencies of the Crown that are not audited by another auditor. Exhibit 3, part (i), lists the agencies audited for the 1991 fiscal year.

Additional Audit Responsibilities

Under section 16 of the Audit Act, the Provincial Auditor may be directed by the Standing Committee on Public Accounts to examine any matter respecting the Public Accounts.

Section 17 of the Act requires the Provincial Auditor to undertake special assignments requested by either the Assembly, the Standing Committee on Public Accounts (by resolution of the Committee), or by a minister. However, these special assignments are not to take precedence over the Auditor's other duties. The Provincial Auditor can decline an assignment referred by a minister if, in the opinion of the Auditor, it conflicts with other duties.

Section 5.6 of this Report indicates the status of recent assignments carried out under these sections of the Audit Act.

5.3 cont'd

Other Auditors

Internal

Internal auditors of ministries and agencies undertake audits on behalf of management. Their audits focus on controls for the safeguarding of assets and the accuracy of essential financial information, and on controls concerned with value for money and accountability considerations. The Office avoids duplication of effort by relying, wherever possible, on work done and on reports issued by the internal auditors.

Public Accounting Firms

Section 9(2) of the Audit Act requires public accounting firms who are appointed auditors of agencies of the Crown to audit under the direction of, and report to, the Provincial Auditor. Under section 9(3) of the Act, public accounting firms auditing Crown controlled corporations must deliver to the Provincial Auditor a copy of their completed audited financial statements, together with a copy of their findings and recommendations to management (management letter). Public accounting firms also are currently contracted by our Office to audit several of the agencies of the Crown listed in Exhibit 3, part (i); however, the responsibility for these audits still remains with our Office.

The agencies of the Crown and Crown controlled corporations audited by public accounting firms for the 1991 fiscal year are listed in Exhibit 3 part (ii) and Exhibit 4, respectively.

5.4
Audit Activities

Types of Audits

Value for money, compliance and attest audits are the three main types of audits carried out by the Office. All such audits are performed in accordance with generally accepted auditing standards. In addition, inspection audits of selected transfer payment recipients are conducted under section 13 of the Audit Act. A brief description of each of these categories follows.

Value for Money

Section 12 of the Audit Act requires the Office to report on any cases observed where money was spent without due regard to economy or efficiency, or where appropriate procedures were not taken to measure the effectiveness of programs. This value for money mandate is exercised with respect to various ministry and Crown agency programs and activities.

It is not part of the Office's mandate to evaluate the effectiveness of programs or develop standards to measure efficiency of program delivery, as these functions are the responsibility of the ministry/agency management. The Office is only responsible for assessing the extent to which these functions have been carried out by management.

5.4 cont'd

Value for money auditing of transfer payment recipients may be conducted by the recipients' appointed auditors or by the internal audit staff of the funding ministries/agencies. The Provincial Auditor is not directly involved in this value for money audit process, but may become indirectly involved when assessing the steps taken by a ministry/agency to satisfy itself that funds provided to organizations are well-managed.

Compliance

Compliance audits are carried out in ministries and Crown agencies in order to assess whether transactions and other aspects of operations are in compliance with legislative and administrative requirements. The Office generally conducts such audit work in conjunction with our value for money and attest auditing.

Attest

Attest (financial) audits are designed to attest to (express a professional opinion on) a set of financial statements. The opinion states whether the operations and financial position of the entity have been fairly presented in compliance with the entity's stated accounting policies. The Office conducts attest audits on the financial statements of the Province and various Crown agencies on an annual basis.

Inspection Audits of Transfer Payment Recipients

Transfer payments, comprising over 70 per cent of Government expenditures, are payments for which the Province does not directly receive goods or services.

Inspection audits are defined as examinations of accounting records. Although value for money observations may arise as a by-product of such audits, the audits are not normally value for money oriented.

The Office conducts inspection audits where circumstances warrant the extension of a ministry or agency audit. In keeping with the trend towards greater Government accountability, the Office in recent years has expanded inspection audit activity specifically to include the major recipients of transfer payments. The Office has undertaken special reviews of community colleges, universities, hospitals and school boards.

Inspection audits may also be carried out by ministry internal auditors under the terms of agreements with the grant recipients.

Scheduling of Audit Activities

Ministry Audits

All major ministry programs (annual expenditures exceeding $40 million) are considered for audit over a five-year period. The cyclical audits are primarily value for money oriented and report specifically on the administration of programs and activities by management. Ministry expenditure systems that are processed centrally are

5.4 cont'd

similarly considered for audit on a cross-ministry basis every five years. Additionally, smaller programs and activities, particularly information systems, may also be audited.

The frequency of the cyclical audits depends on such factors as total ministry expenditures, impact of a program on the public, diversity and complexity of operations, results of previous cyclical audits, and audit activity by the internal audit branch within the relevant ministry. As well, the Office may undertake special assignments at ministries and their agencies as requested by the Legislature, the Standing Committee on Public Accounts or a minister. The Office may also carry out internally generated special assignments.

Agency Audits

Agencies of the Crown are audited annually as required by legislation. While value for money observations may arise during these audits, the Office also periodically performs more in-depth value for money audits at selected agencies.

5.5 Ministry and Agency Reports

Reporting Process

The Office prepares a draft report as each audit is completed. The draft is discussed with senior ministry/agency officials and revised, if necessary, to reflect the results of the discussion. We issue a final report to the Minister and Deputy Minister or, for agencies, to the Board of Directors and the Minister of the associated ministry. Also, we send a copy of all final reports to the Secretary, Management Board of Cabinet.

Exhibits 2 and 3 provide a listing of the ministry and agency audits conducted since our last Report.

5.6 Additional Reporting Matters

Special Assignments

Under sections 16 and 17 of the Audit Act, the Office has additional reporting responsibilities relating to special assignments for the Legislative Assembly, the Standing Committee on Public Accounts or a Minister of the Crown. At the conclusion of such work the Provincial Auditor reports to the initiator of the assignment.

During the period of audit activity (September 1990 to August 1991) covered by this Report, the Office was involved with three special assignments:

- At the request of the Standing Committee on Public Accounts, the Office undertook an audit of the process used by the Ministry of Industry, Trade and Technology for the production of the book and video entitled "Ontario - Share the Vision." We reported to the Committee in December 1990.

5.6 cont'd

- The Standing Committee on Public Accounts requested the Provincial Auditor to conduct an audit of the expenditures of Deputy Ministers and report on the guidelines that Deputy Ministers are required to follow with respect to the use of these expenditures. The audit would also show the actual amount that each Deputy Minister was granted for the purpose of expenses and would include any suggestions the Provincial Auditor might have which might be implemented to improve the accountability of the use of these expenditures. We expect to report to the Committee early in the fall session of the Legislature.

- As The Ontario Educational Communications Authority (TV Ontario) had been the subject of much adverse commentary and allegation concerning senior management and the administration of the Authority's resources, the Secretary of Cabinet requested our Office to investigate the many issues relating to fiscal responsibility and any other matters the Office considered relevant. This request was confirmed in discussion with the Minister of Culture and Communications. We expect to report to the Secretary in September 1991.

5.7
Annual Report

Reporting Process

Under section 12 of the Audit Act, the Provincial Auditor is required to report through the Speaker to the Legislative Assembly on the results of his examinations.

The main body of the Annual Report consists of sections extracted from audit reports on ministries and agencies issued during the period to August 31, 1991. The Report may also include excerpts from reports on special assignments for a Minister, or from the reports to management prepared by the auditors of agencies of the Crown or Crown controlled corporations.

The Report material is selected by senior management using criteria which include: monetary significance; public sensitivity or safety (environment, health care); and adherence to good management practices (economy, efficiency, effectiveness).

The selected report items together with relevant ministry/agency responses received up to September 15 only (due to translation and printing requirements) are included in the Annual Report. Responses received after September 15 are forwarded separately to the Standing Committee on Public Accounts.

The Standing Committee on Public Accounts receives the Report for review after it is tabled in the Assembly, normally in November, and subsequently calls upon representatives of the ministries or agencies to discuss selected sections.

Annual Report Briefing

An Annual Report briefing is held each year prior to the tabling of the Report. Separate and simultaneous lockups are arranged for: members of the Assembly and their research staff; representatives of the media; and representatives of ministries, agencies of the Crown and central agencies. When the lockups conclude the Provincial Auditor holds a news conference to answer the media's questions.

Public Disclosure of Reports

5.8
Public Disclosure of Reports

Annual Report

The Annual Report becomes available to the public when it is tabled in the Legislative Assembly. Also, when the Annual Report is reviewed by the Standing Committee on Public Accounts, the public may attend the meetings.

Other Reports

As previously noted, at the conclusion of ministry or agency audits, or special assignments for a Minister, the Office prepares individual audit reports. In addition, the external auditors of agencies or Crown controlled corporations submit reports to management. None of the aforementioned reports are submitted to the Legislative Assembly or to the Standing Committee on Public Accounts, or otherwise made public. However, the Standing Committee on Public Accounts or any other committee of the Assembly can request the reports if they are deemed necessary to carry out its mandated responsibilities. The reports become public documents when laid before the committee.

Reports on special assignments for the Legislative Assembly, or a committee of the Assembly, become public documents when they are tabled.

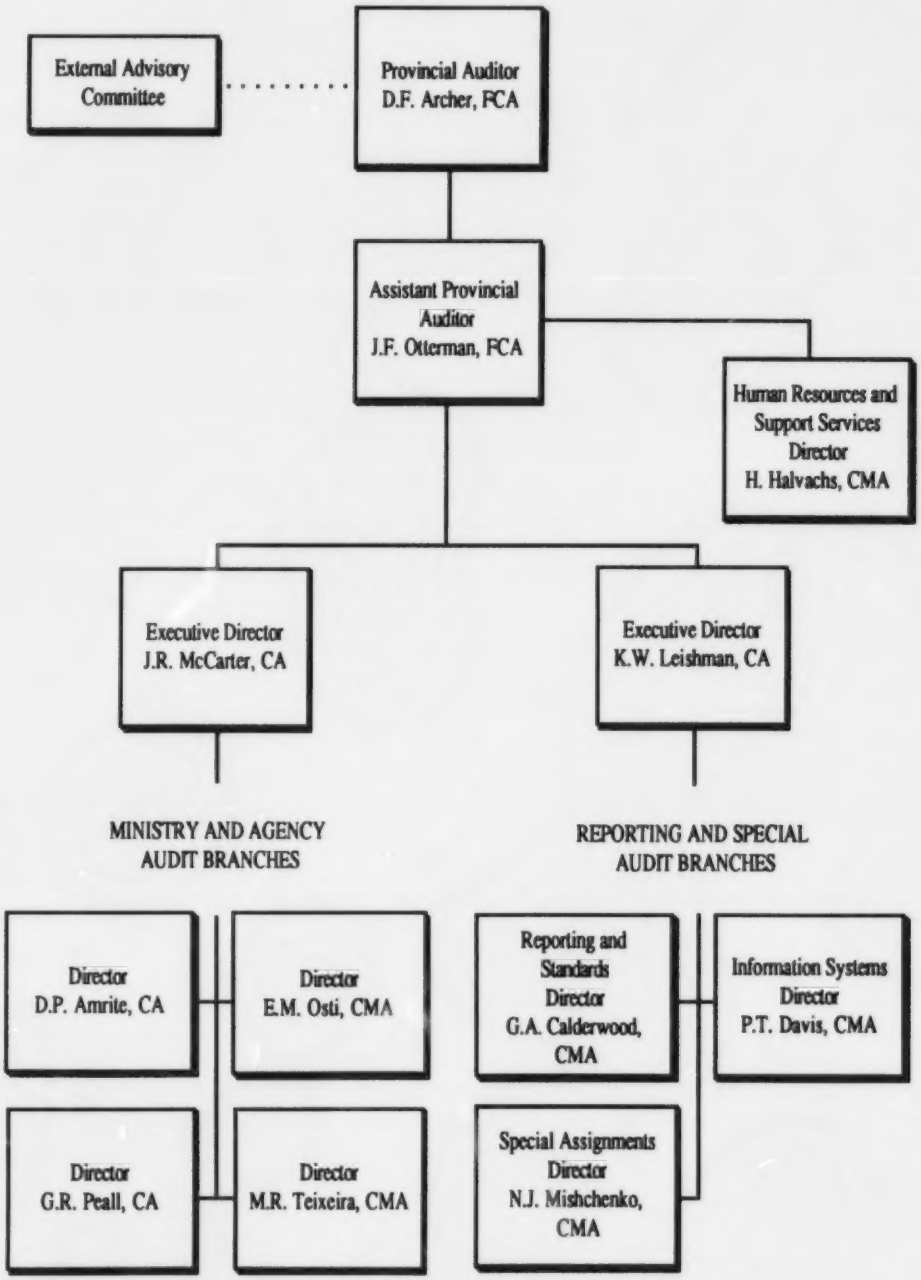
Draft reports for ministries and agencies are considered to be an integral part of our audit working papers and, according to section 19 of the Audit Act, are not required to be laid before the Legislative Assembly or any of its committees.

The Office has not been designated as an institution to which the access provisions of the Freedom of Information and Protection of Privacy Act, 1987, apply.

Office of the Provincial Auditor

5.9
Office Organization and Personnel

The staff complement of the Office at August 31, 1991 was 115 and the Office was organized as follows:


External Advisory Committee
Provincial Auditor D.F. Archer, FCA
Assistant Provincial Auditor J.F. Otterman, FCA
Human Resources and Support Services Director H. Halvachs, CMA
Executive Director J.R. McCarter, CA
Executive Director K.W. Leishman, CA
MINISTRY AND AGENCY AUDIT BRANCHES
REPORTING AND SPECIAL AUDIT BRANCHES
Director D.P. Amrite, CA
Director E.M. Osti, CMA
Director G.R. Peall, CA
Director M.R. Teixeira, CMA
Reporting and Standards Director G.A. Calderwood, CMA
Information Systems Director P.T. Davis, CMA
Special Assignments Director N.J. Mishchenko, CMA

Office Organization and Personnel

5.9 cont'd

Ministry and Agency Audit Branches

These four branches audit ministries on a cyclical basis and agencies of the Crown annually.

Reporting and Standards Branch

The responsibilities of this branch include the audit of the Province's financial statements, the preparation of the Annual Report, and the development and maintenance of auditing policies and standards.

Information Systems Branch

This branch's main responsibilities involve the auditing of information systems and the provision of technical support and training to other branches.

Special Assignments Branch

This branch's main responsibilities are Office-initiated audits and reviews of Government-wide issues and systems, and special assignments requested by the Standing Committee on Public Accounts and by Ministers.

Advisory Committee

The external Advisory Committee assesses the Annual Report and other publicly issued reports, periodically reviews the Office's audit approach, analyses the Office profile, and provides advice relating to sensitive audit issues. The Committee meets once or twice a year on the call of the Auditor.

The Committee's members combine the independence of current association with the private sector with extensive knowledge of the parliamentary system and the function of Government. The five members are:

Rendall Dick:	former Deputy Attorney General and Deputy Treasurer of Ontario;
Patrick Reid:	former Labour/Liberal MPP; past Chairman of the Public Accounts Committee;
Jack Stokes:	former New Democratic MPP and Speaker of the Legislative Assembly;
George Taylor:	former Conservative MPP and member of the Public Accounts Committee; former Solicitor General of Ontario;
Adam Zimmerman:	Vice-Chairman, MacMillan Bloedel; Chairman, Noranda Forest Inc.

Office of the Provincial Auditor

5.10
Office Expenditure

The following is the 1991 audited Statement of Expenditure for the Office.

Office of the Provincial Auditor
Statement of Expenditure
year ended March 31, 1991

	1991		1990	
	Actual $	Estimates $	Actual $	Estimates $
Salaries and wages	4,708,966	5,167,000	4,565,374	5,367,200
Employee benefits	963,510	667,000	583,274	665,000
Transportation and communication	255,910	277,000	251,074	277,000
Services	1,143,349	1,360,500	1,223,118	1,112,000
Supplies and equipment	356,644	134,500	120,152	116,000
Transfer payment - Canadian Comprehensive Auditing Foundation	50,000	50,000	48,000	48,000
	7,478,379	7,656,000	6,790,992	7,585,200
The Audit Act	122,095	123,000	117,560	95,200
	7,600,474	7,779,000	6,908,552	7,680,400

Notes:

1. *Accounting Policy*

   The statement of expenditure has been prepared using the cash basis of accounting followed by the Province of Ontario with respect to the Public Accounts. The cash basis of accounting is modified to allow for an additional thirty days to pay for debts incurred during the fiscal year just ended.

2. *Estimates*

   The estimates shown above are those voted and approved, including supplementary estimates where applicable.

5.10 cont'd

Auditors' Report

TO THE BOARD OF INTERNAL ECONOMY
THE PROVINCE OF ONTARIO

We have audited the statement of expenditure of the Office of the Provincial Auditor for the year ended March 31, 1991. This statement is the responsibility of the organization's management. Our responsibility is to express an opinion on this statement based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall statement presentation.

In our opinion, this statement presents fairly, in all material respects, the expenditures of the Office of the Provincial Auditor for the year ended March 31, 1991 in accordance with the accounting policy referred to in note 1 to the statement.

Toronto, Ontario
July 5, 1991

ALLEN, MILES, FOX & JOHNSTON
CHARTERED ACCOUNTANTS

5.11
Canadian Conference of Legislative Auditors

The nineteenth annual meeting of the Canadian Conference of Legislative Auditors was held in Winnipeg from August 11 to 13, 1991. This gathering, bringing together legislative auditors from Canada and the provinces, provides a useful forum for sharing ideas and exchanging information important to the legislative auditing community.

This year's conference, attended by the Provincial Auditor and the Assistant Provincial Auditor, covered such topics as:

- performance reporting by governments;
- audit of transfer payment recipients;
- federal and provincial deficit spending; and
- government accounting matters.

CHAPTER

6

THE STANDING COMMITTEE ON PUBLIC ACCOUNTS

CHAPTER 6
THE STANDING COMMITTEE ON PUBLIC ACCOUNTS

6.1 Appointment and Composition of the Committee

The Standing Orders of the Legislative Assembly provide for the appointment of an all-party Standing Committee on Public Accounts for each Session of Parliament.

The membership of the Committee is approximately proportional to the respective party membership in the Legislature. All members are entitled to vote on motions, with the exception of the Chairman whose vote is restricted to the breaking of a tie.

In accordance with the Standing Orders, a Standing Committee on Public Accounts was appointed on November 28, 1990, soon after the commencement of the first session of the Thirty-fifth Parliament. The current membership of the Committee is as follows:

Robert Callahan, Chair, Liberal
Dianne Poole, Vice-Chair, Liberal
James Bradley, Liberal
Sean Conway, Liberal
W. Donald Cousens, Progressive Conservative
Christel Haeck, New Democrat
Pat Hayes, New Democrat
Paul Johnson, New Democrat
Ellen MacKinnon, New Democrat
Lawrence O'Connor, New Democrat
David Tilson, Progressive Conservative
Drummond White, New Democrat

6.2 Role of the Committee

The role of the Committee, on behalf of the Assembly and ultimately the public, is to hold the Cabinet and the Government bureaucracy accountable for their administration.

In order to fulfil this role, the Committee is empowered to review and report to the Assembly its observations, opinions and recommendations on selected matters in the Report of the Provincial Auditor and the Public Accounts. These documents are referred to the Committee as soon as they are tabled.

The Committee examines, assesses and reports to the Legislature on a number of issues, including the economy and efficiency of operations; the effectiveness of programs in achieving objectives; controls over assets, expenditures and the assessment and collection of revenues; and, the reliability and appropriateness of information in the Public Accounts.

Provincial Auditor's Role in the Process

The Provincial Auditor assists the Committee by providing appropriate audit information for use by the Committee in its scrutiny of Government programs and financial activities.

6.2 cont'd

Additionally, the Provincial Auditor and senior staff attend Committee meetings to assist members by answering questions and clarifying financial and management matters under review.

6.3
Committee Procedures and Operations

General

The Committee meets on Thursday mornings when the Legislature is sitting. For the past several years it has also met more frequently during the summer and winter when the Legislature has not been sitting. All meetings are open to the public with the exception of those dealing with the setting of the Committee's agenda and the preparation of Committee reports.

At meetings dealing with ministry operations, a Deputy Minister, usually accompanied by senior ministry officials, answers questions raised by Committee members. Since the Committee is concerned with administrative, rather than policy matters, Ministers rarely attend. When the Committee is reviewing Crown agencies, the Chief Executive Officer and, at times, the Chairman of the Board attend the meetings. They are usually accompanied by senior agency staff.

Meetings Held

From November 1990 to August 1991 the Committee held 18 public meetings, which included reviews of the results of the Provincial Auditor's inspection audit activities in universities and school boards. Additionally, a number of in camera meetings were held, mainly to finalize Committee Reports to the Legislature. The Committee also held a number of meetings related to OHIP billings, with particular emphasis on increased billings from drug and alcohol treatment centres located in the United States. As part of the Committee's review of this subject, a sub-committee visited treatment centres in the United States to gain some insight into the reasons for the increased use of such centres by Ontario residents.

Motion Passed at Meeting

Audit of Deputy Ministers' Expenses

On May 9, 1991 the Committee passed a motion requesting the Provincial Auditor to conduct an audit of the expenditures of Deputy Ministers and report to the Committee on the guidelines that Deputy Ministers were required to follow with respect to the use of these expenditures.

The audit would also show the actual amount that each Deputy Minister was granted for the purpose of expenses and would include any suggestions the Provincial Auditor might have to improve the accountability of the use of these expenditures.

6.3 cont'd

Committee Procedures

In recent years the Committee has adopted the following procedures and approaches to increase its effectiveness:

- in-depth briefings and preparation;
- more frequent reports to the Legislature;
- increased follow-up of Committee recommendations; and
- site visits to discuss concerns and obtain firsthand knowledge of everyday working conditions in the field.

6.4
Reports of the Committee

General

As noted above, the Committee has adopted the practice of more frequent reporting to the Legislature. Each report consists of a précis of the information reviewed by the Committee during its meetings, together with a summary of comments and recommendations.

The Committee also issues additional reports on an annual or biennial basis which include summaries of previously issued reports. All reports are available through the Clerk of the Committee, thus affording public access to full details of Committee deliberations.

Completed Reports

The Committee tabled a report in the Legislature in July 1991. The report contained recommendations related to the following:

- Ministry of Education
  - Inspection audits of school boards
- Ministry of Colleges and Universities
  - Inspection audits of universities

The Clerk of the Committee is responsible for following up the actions taken by ministries/agencies on the Committee's recommendations. Our Office liaises with the Clerk to ascertain the status of the recommendations, and would bring any significant matters arising therefrom to the attention of the Legislature in our Annual Reports.

6.5 Status of Committee Recommendation Respecting Amendments to the Audit Act

In a June 1990 Report to the Legislature, the Committee endorsed the Provincial Auditor's proposals respecting amendments to the Audit Act. In this regard, the Committee recommended that the proposed amendments to the Act be drafted and introduced for first reading as soon as possible and preferably in 1990. On December 13, 1990 the Office's draft of the proposed revisions to the Act was submitted to the Treasurer and Minister of Economics, the Minister legislatively responsible for the Audit Act, for his consideration.

The Treasurer subsequently advised that government officials were reviewing the proposed revisions. After the review is completed, the amending legislation will be introduced in the House.

6.6 Other Committee Activities

Canadian Council of Public Accounts Committees

The thirteenth annual meeting of the Council was held in Winnipeg from August 11 to 13, 1991. These annual meetings, normally attended by Public Accounts Committee members from all the provinces and the federal government, provide a valuable forum for the exchange of ideas and information. The 1991 meeting was attended by five members of the Ontario committee.

The annual meeting included: a round-table discussion of each delegation's Public Accounts Committee activities during the past year; sessions dealing with Crown corporations; and, a joint session with the Conference of Legislative Auditors (Section 5.11).

EXHIBITS

1. Cross-Ministry and Special Audits.
2. Ministry Audits.
3. Agencies of the Crown, year ended March 31, 1991.
4. Crown Controlled Corporations, year ended March 31, 1991.
5. Management Board Orders - Amounts Authorized and Expended Thereunder, year ended March 31, 1991.
6. Status of Suggested Corrective Action and Recommendations Contained in Previous Annual Reports.

EXHIBIT 1

Cross-Ministry and Special Audits

CROSS-MINISTRY AUDITS

* • Government Mainframe Computers
- Correctional Services
- Government Services
- Revenue

* • Government Microcomputers
- Agriculture and Food
- Attorney General
- Colleges and Universities
- Community and Social Services
- Energy
- Housing
- Industry, Trade and Technology
- Labour
- Municipal Affairs
- Solicitor General

* • Government Minicomputers
- Community and Social Services
- Consumer and Commercial Relations (Liquor Licence Board)
- Culture and Communications
- Education
- Environment
- Financial Institutions (Ontario Securities Commission)
- Government Services
- Health
- Labour
- Municipal Affairs
- Natural Resources
- Northern Development and Mines
- Tourism and Recreation
- Transportation
- Treasury and Economics

* • Government Payments System
- Community and Social Services
- Consumer and Commercial Relations
- Culture and Communications
- Environment
- Government Services
- Health
- Natural Resources
- Revenue
- Solicitor General
- Transportation

Exhibit 1

SPECIAL AUDITS

Reviews for the Standing Committee on Public Accounts

- "Ontario - Share the Vision" - Book and Video Production

* ***Inspection Audits - Ministry of Education***

- Dufferin - Peel Roman Catholic Separate School Board
- Peel Board of Education
- Simcoe County Board of Education
- Simcoe County Roman Catholic Separate School Board
- Board of Education for the City of Windsor
- Windsor Roman Catholic Separate School Board

Inspection Audits - Ministry of Health

* • Toronto East General and Orthopaedic Hospital Inc.

* • The Toronto General Division of The Toronto Hospital

Other

* • Trends in Staffing Levels in Ontario School Boards

- Workers' Compensation Board - Investments

*These matters appear in Chapter 2 of this Report.

EXHIBIT 2

Ministry Audits

Agriculture and Food
- Farm Tax Rebates

* • Food Quality and Standards

Community and Social Services
* • Non-residential Developmentally Handicapped Agency
  - Surrey Place Centre

• Ontario Drug Benefit Plan

Environment
* • Waste Management

Financial Institutions
* • Deposit Institutions e.g.:
  - Credit Unions
  - Trust Companies

Health
• Assistive Device Services

* • Hospital Operating Grants

* • Ontario Drug Benefit Plan

Industry, Trade and Technology
* • Industrial Assistance - Loans, Repayable Grants

Labour
* • Employment Standards

* • Construction Health and Safety

Office Responsible for Women's Issues
• Ontario Advisory Council on Women's Issues

* • Ontario Women's Directorate

Tourism and Recreation
* • Grants for Recreation, Sports and Fitness

Transportation
* • Municipal Transit - Operations and Capital and Construction

*These matters appear in Chapter 3 of this Report.

EXHIBIT 3

Agencies of the Crown
year ended March 31, 1991

(i) Agencies whose accounts are audited by the Provincial Auditor.

* Accountant of the Supreme Court of Ontario, The
Agricultural Rehabilitation and Development Directorate of Ontario
Alcoholism and Drug Addiction Research Foundation
* Algonquin Forestry Authority
Centennial Centre of Science and Technology, The
Commission on Election Finances
* Crop Insurance Commission of Ontario, The
* Eastern Ontario Development Corporation
Egg Fund Board (December 31)
Election Act, 1984, The, - Election Fees and Expenses
Environmental Compensation Corporation
* Farm Income Stabilization Commission of Ontario
Fund for Milk and Cream Producers, The, -
The Ontario Farm Products Marketing Commission
Grain Financial Protection Board
* Innovation Ontario Corporation
Legal Aid Fund, Law Society of Upper Canada, The
* Liquor Control Board of Ontario
Liquor Licence Board of Ontario
Live Stock Financial Protection Board, The
North Pickering Development Corporation
* Northern Ontario Development Corporation
Northern Ontario Heritage Fund Corporation
Office of the Assembly
Office of the Information and Privacy Commissioner
Office of the Official Guardian
Office of the Ombudsman
Ontario Agricultural Museum
Ontario Cancer Treatment and Research Foundation, The
* Ontario Development Corporation
Ontario Educational Communications Authority, The
Ontario Film Development Corporation, The
Ontario Food Terminal Board
Ontario Heritage Foundation, The
* Ontario Housing Corporation (December 31)
Ontario Industrial Training Institute
* Ontario International Corporation
* Ontario Junior Farmer Establishment Loan Corporation, The
* Ontario Lottery Corporation
* Ontario Municipal Improvement Corporation, The
* Ontario Northland Transportation Commission (December 31)
* Ontario Place Corporation
Ontario Racing Commission
Ontario Stock Yards Board (June 30)
Ontario Training Corporation
* Ontario Waste Management Corporation
Pension Commission of Ontario
Potato Financial Protection Board
Processing-Vegetable Financial Protection Board
Province of Ontario Council for the Arts

* Provincial Judges Benefits Fund
Public Complaints Commissioner
* Public Trustee of the Province of Ontario, The
Rent Review Hearings Board
Soldiers' Aid Commission
St. Clair Parkway Commission, The (December 31)
* Superannuation Adjustment Fund
Tobacco Producers' Assistance Fund

(ii) Agencies whose accounts are audited by another auditor under the direction of the Provincial Auditor.

Board of Community Mental Health Clinic, Guelph
Clarke Institute of Psychiatry
* Niagara Parks Commission, The (October 31)
Ontario Cancer Institute, The
Ontario Mental Health Foundation
St. Lawrence Parks Commission, The
* Toronto Area Transit Operating Authority
* Workers' Compensation Board (December 31)

NOTE: Dates in parentheses indicate fiscal periods ending on a date other than March 31.

* Audited financial statements reproduced in 1990-91 Public Accounts, the majority appearing in Volume 2.

EXHIBIT 4

Crown Controlled Corporations
year ended March 31, 1991

Corporations whose accounts are audited by an auditor other than the Provincial Auditor, with full access by the Provincial Auditor to audit reports, working papers and other related documents.

Board of Funeral Services
Board of Governors of The Ontario Institute for Studies in Education, The
Board of Ophthalmic Dispensers
Board of Radiological Technicians
Corporation of the Improvement District of Cameron
Corporation of the Improvement District of Gauthier
Corporation of the Improvement District of Kingsford
Corporation of the Improvement District of Matachewan
Governing Board of Dental Technicians
Governing Board of Denture Therapists
McMichael Canadian Art Collection
Metropolitan Toronto Convention Centre Corporation
Moosonee Development Area Board
Ontario Board of Examiners in Psychology
* Ontario Centre for Resource Machinery Technology
Ontario Cream Producers' Marketing Board
* Ontario Energy Corporation
Ontario Historical Studies Series
* Ontario Hydro
Ontario Milk Marketing Board, The
* Ontario Mortgage Corporation
Ontario Municipal Employees Retirement Board
Ontario Share and Deposit Insurance Corporation
* Ontario Teachers' Pension Plan Board
* Ontario Transportation Development Corporation, The
Ontario Trillium Foundation
Ortech Corporation
Ottawa Congress Centre
* Public Service Pension Board
Royal Ontario Museum, The
Science North
* Stadium Corporation of Ontario Limited
Thunder Bay Ski Jumps Limited
* Urban Transportation Development Corporation Limited

* Audited financial statements reproduced in 1990-91 Public Accounts, Volume 2.

EXHIBIT 5

Management Board Orders
Amounts Authorized and Expended Thereunder
year ended March 31, 1991

Ministry	Date of Order	Authorized	Expended
		$	$
Agriculture and Food	Mar. 12, 1991	28,806,200	28,714,556
	Apr. 9, 1991	9,910,000	8,293,520
		38,716,200	37,008,076
Attorney General	Feb. 26, 1991	17,688,500	17,656,811
	Apr. 9, 1991	13,328,400	13,153,474
		31,016,900	30,810,285
Cabinet Office	Mar. 12, 1991	1,300,000	1,221,002
Citizenship	Mar. 19, 1991	255,200	252,775
	Apr. 9, 1991	938,300	924,864
		1,193,500	1,177,639
Colleges and Universities	Mar. 26, 1991	8,880,600	8,597,856
	Apr. 9, 1991	500,000	69,347
		9,380,600	8,667,203
Community and Social Services	Feb. 19, 1991	524,557,200	524,455,606
	Mar. 26, 1991	21,371,300	21,371,300
	Apr. 9, 1991	52,216,000	51,202,308
		598,144,500	597,029,214
Consumer and Commercial Relations	Feb. 5, 1991	6,629,200	5,928,515
	Feb. 26, 1991	2,520,900	2,333,950
	Mar. 12, 1991	6,090,000	6,003,533
	Mar. 26, 1991	334,900	43,556
		15,575,000	14,309,554

Exhibit 5

Ministry	Date of Order	Authorized	Expended
		$	$
Correctional Services	Mar. 19, 1991	24,078,800	23,941,515
	Apr. 9, 1991	1,514,300	1,025,065
		25,593,100	24,966,580
Culture and Communications	Feb. 26, 1991	200,000	194,119
	Mar. 26, 1991	847,900	845,382
	Apr. 9, 1991	11,344,400	11,314,868
		12,392,300	12,354,369
Office Responsible for Disabled Persons	Apr. 9, 1991	288,000	33,156
Education	Feb. 12, 1991	8,161,300	5,312,273
	Mar. 19, 1991	5,957,000	3,716,280
	Apr. 9, 1991	275,700	-
		14,394,000	9,028,553
Energy	Feb. 26, 1991	2,348,000	2,187,488
Environment	Mar. 19, 1991	18,853,100	17,458,457
	Apr. 9, 1991	655,700	655,113
		19,508,800	18,113,570
Financial Institutions	Jan. 15, 1991	1,000,000	944,241
	Feb. 12, 1991	2,062,400	1,762,506
	Mar. 26, 1991	345,000	8,229
		3,407,400	2,714,976
Government Services	Mar. 19, 1991	12,044,400	9,831,161
	Apr. 9, 1991	1,122,200	568,447
		13,166,600	10,399,608

Management Board Orders

Ministry	Date of Order	Authorized	Expended
		$	$
Health	Mar. 12, 1991	76,468,900	71,063,831
	Mar. 26, 1991	942,000	414,544
	Apr. 9, 1991	41,673,500	38,210,713
	Apr. 23, 1991	36,495,700	34,947,233
		155,580,100	144,636,321
Housing	Apr. 9, 1991	10,433,200	10,357,932
Industry, Trade and Technology	Mar. 26, 1991	5,794,200	4,624,267
	Apr. 9, 1991	550,600	278,206
		6,344,800	4,902,473
Intergovernmental Affairs	Feb. 26, 1991	554,000	188,144
Labour	Jan. 22, 1991	1,864,500	1,864,343
	Feb. 19, 1991	3,861,700	3,861,700
	Mar. 19, 1991	5,484,700	5,223,521
		11,210,900	10,949,564
Office of the Lieutenant Governor	Apr. 9, 1991	15,000	12,305
Management Board of Cabinet	Feb. 26, 1991	1,300,000	1,033,272
	Mar. 26, 1991	985,600	765,321
	Apr. 9, 1991	399,000	215,351
		2,684,600	2,013,944
Municipal Affairs	Apr. 9, 1991	3,030,300	2,820,396

Exhibit 5

Ministry	Date of Order	Authorized	Expended
		$	$
Office Responsible for Native Affairs	Jan. 15, 1991	788,700	709,190
Natural Resources	Oct. 23, 1990	12,000,000	12,000,000
	Mar. 19, 1991	10,567,100	8,892,967
	Mar. 26, 1991	30,686,400	30,159,149
	Apr. 16, 1991	1,870,600	1,735,297
		55,124,100	52,787,413
Northern Development and Mines	Feb. 26, 1991	5,642,400	5,014,171
	Apr. 9, 1991	14,300,000	13,531,670
		19,942,400	18,545,841
Office of the Premier	Jan. 15, 1991	701,400	701,400
	Mar. 12, 1991	400,000	392,598
		1,101,400	1,093,998
Revenue	Mar. 19, 1991	5,417,100	4,776,515
	Mar. 26, 1991	633,300	157,568
		6,050,400	4,934,083
Office Responsible for Senior Citizens Affairs	Mar. 26, 1991	251,000	53,344
Solicitor General	Mar. 12, 1991	10,919,000	10,728,151
	Apr. 9, 1991	2,095,000	1,818,390
		13,014,000	12,546,541
Tourism and Recreation	Mar. 19, 1991	7,737,400	7,699,832
	Apr. 16, 1991	1,960,000	1,846,141
		9,697,400	9,545,973

Management Board Orders

Ministry	Date of Order	Authorized	Expended
		$	$
Transportation	Jan. 29, 1991	10,000,000	10,000,000
	Mar. 12, 1991	21,775,000	21,775,000
	Mar. 19, 1991	9,529,800	9,510,979
	Mar. 26, 1991	48,889,000	48,620,355
	Apr. 9, 1991	3,941,500	3,820,087
	Apr. 23, 1991	54,500,000	54,500,000
		148,635,300	148,226,421
Treasury and Economics	Feb. 26, 1991	3,027,300	2,308,341
Office Responsible for Women's Issues	Mar. 19, 1991	130,700	95,378
Total Management Board Orders		1,234,040,500	1,196,748,875

EXHIBIT 6

Status of Suggested Corrective Action and Recommendations Contained in Previous Annual Reports
(See Note)

Report	Section	Description/Status
		RESOLVED AS AT DATE OF PREPARATION OF 1991 AUDITOR'S REPORT
		CROSS-MINISTRY AND SPECIAL REVIEWS
1989	2.5	Purchasing of government consulting services. • Substantially implemented.
1989	2.7	Government travel expenditures. • Substantially implemented.
1990	2.5	Government collections of accounts receivable. • Substantially implemented.
		MINISTRIES
		Attorney General
1989	3.2	Poor utilization and monitoring of district courtrooms and staff. • In process of implementation.
		Community and Social Services
1989	3.3	Inadequate monitoring of child care payments, Children's Services Activity. • In process of implementation.
1989	3.4	Matters of concern, Children's Aid Societies. • In process of implementation.
		Correctional Services
1989	3.5	Impediments to probation enforcement and effective rehabilitation, Community Services Activity. • Partially implemented.
1989	3.6	Parole decisions reasonably effective, Ontario Board of Parole. • Substantially implemented.
1990	3.5	Management information systems. • Substantially implemented.

Status of Previous Annual Report Recommendations

Report	Section	Description/Status
		Government Services
1989	3.7	Improved practices required, management of leased accommodation. • In process of implementation.
1989	3.8	Repair procedures not followed and services not acquired economically. • Substantially implemented.
		Health
1990	3.12	Use of information technology consultants. • In process of implementation.
		Natural Resources
1989	3.11	Better controls and enforcement required, Fisheries and Wildlife Management Activities. • Partially implemented.
		Revenue
1989	3.12	Observations on audit and revenue control systems, Retail Sales Tax Branch. • Partially implemented.
		Transportation
1989	3.13	Deficiencies noted in Driver and Vehicle Registration Systems. • Substantially implemented.
1989	3.14	Opportunities for improvement - Examination, Inspection and Enforcement Activity. • Substantially implemented.
		CROWN AGENCIES
		Liquor Licence Board of Ontario
1990	3.16	Insufficient inspection activity and other matters. • Partially implemented.

Exhibit 6

Report	Section	Description/Status
		The Public Trustee of the Province of Ontario
1990	3.19	Inadequate safeguarding of valuables. • Partially implemented.
		The Royal Ontario Museum
1988	4.7	Improved controls and data security recommended. • Implemented.
		TO BE REVIEWED IN SUBSEQUENT YEARS*
		CROSS-MINISTRY AND SPECIAL REVIEWS
1989	2.6	Government overtime payments.
1990	2.6	Government vehicle fleet administration.
		MINISTRIES
		Community and Social Services
1990	3.2	Inadequate monitoring, ministry facilities for the developmentally handicapped.
1990	3.3	Inadequate monitoring of agencies for the developmentally handicapped.
1990	3.4	Inadequate procedures for monitoring homes for the aged.
		Education
1990	3.6	Financial accountability frameworks for grants to school boards.
		Government Services
1990	3.7	Observations on computer services and security, Toronto Development Centre.
		Health
1989	3.9	Deficiencies in funding and monitoring of operations, Land Ambulance Services.
1990	3.9	Improvements required in monitoring nursing home services.
1990	3.10	Concerns with access to extended care beds.

Status of Previous Annual Report Recommendations

Report	Section	Description/Status
1990	3.11	Opportunities to improve economy, Home Care Assistance.
1990	3.13	OHIP billings adequately monitored, Provider Services Branch.
		Intergovernmental Affairs
1990	3.14	Concerns over information technology purchases.
		Solicitor General
1990	3.15	Observations on the Ontario Provincial Police Field Operations and Quartermaster Stores.
		CROWN AGENCIES
		Office of the Assembly
1990	3.17	Opportunities for travel cost savings.
		Ontario Cancer Treatment and Research Foundation
1990	3.18	Overseas recruitment expenditure.

NOTE: This exhibit provides the status of all suggested corrective action and recommendations which were:

(a) considered unresolved per Exhibit 6 of the 1990 Auditor's Report.

(b) contained in the body of the 1990 Auditor's Report.

* The status of recommendations will normally be determined during the next cyclical audit of the areas involved. However, where possible, we endeavour to ascertain the status earlier.